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ABSTRACT

This 10th and final hearing in a series related to the reauthorization of the Higher Education Act, focused on three specific areas: (1) the challenges posed by demographic changes in the college student population--nearly half of all students attend community colleges where the average age of students is 29; (2) the challenges and opportunities posed by technology, including distance learning and underserved communities; and (3) lifelong learning and nontraditional students. Testimony and prepared statements were submitted by: Senators James Jeffords, Edward Kennedy, Wayne Allard, and Christopher Dodd; and by Donald Stewart of the College Board (Washington, D.C.); Joel Harrell, University of Tennessee; Bryan Hannegan, National Association of Graduate-Professional Students (Wilmette, Illinois); Stanley Ikenberry, American Council on Education (Washington, D.C.); Philip Day, Daytona Beach (Florida) Community College; Omer Waddles, Career College Association (Washington, D.C.); and Deborah Dunn, Yorktowne Business Institute (York, Pennsylvania). Testimony covered such topics as: college costs and affordability, access and student aid, graduate education, the grant/loan imbalance, managing student debt, federal student loan programs, and the Kid's Bank amendment. (CH)

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ACCESS AND COSTS: RECOMMENDATIONS FOR TITLE IV

ED 411 755

HEARING OF THE COMMITTEE ON LABOR AND HUMAN RESOURCES UNITED STATES SENATE ONE HUNDRED FIFTH CONGRESS

FIRST SESSION

ON

EXAMINING PROPOSALS AUTHORIZING FUNDS FOR TITLE IV STUDENT AID PROGRAMS AND ISSUES RELATING TO ACCESS TO COSTS OF POSTSECONDARY EDUCATION OF THE HIGHER EDUCATION ACT, INCLUDING S. 1036, TO REVISE SECTION 435 OF THE HIGHER EDUCATION ACT TO ALLOW FOR THE YOUNG AMERICANS BANK AND SIMILAR SMALL, NON-PROFIT ORGANIZATIONS TO PROVIDE ADDITIONAL FUNDS FOR EDUCATIONAL PROGRAMMING

JULY 24, 1997

Printed for the use of the Committee on Labor and Human Resources



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(II)

CONTENTS

STATEMENTS

THURSDAY, JULY 24, 1997

	Page
Jeffords, Hon. James M., Chairman, Committee on Labor and Human Resources, opening statement	1
Kennedy, Hon. Edward M., a U.S. Senator from the State of Massachusetts, prepared statement	2
Stewart, Donald M., president, College Board, Washington, DC; Joel V. Harrell, director of financial aid, University of Tennessee, Chattanooga, TN, on behalf of the National Association of Student Financial Aid Administrators; and Bryan J. Hannegan, president, National Association of Graduate Professional Students, Wilmette, IL	3
Prepared statements of:	
Mr. Stewart	5
Mr. Harrell	23
Mr. Hannegan	34
Allard, Hon. Wayne, a U.S. Senator from the State of Colorado	37
Prepared statement (with attachments)	38
Ikenberry, Stanley O., president, American Council on Education, Washington, DC; Philip R. Day, Jr., president, Daytona Beach Community College, Daytona Beach, FL; and Omer E. Waddles, president, Career College Association, Washington, DC	56
Prepared statements of:	
Mr. Ikenberry	58
Mr. Day	69
Mr. Waddles	76
Dodd, Hon. Christopher J., a U.S. Senator from the State of Connecticut, prepared statement	87
Dunn, Deborah, representative of the Yorktowne Business Institute, York, PA, prepared statement before the House Committee on Education and the Workforce, Subcommittee on Postsecondary Education and Lifelong Learning	88

ADDITIONAL MATERIAL

Articles, publications, letters, etc.:

Jeffords, Hon. James M., Chairman, Committee on Labor and Human Resources, from Omer Waddles, president, Career College Association, dated August 6, 1997	88
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ACCESS AND COSTS: RECOMMENDATIONS FOR TITLE IV

THURSDAY, JULY 24, 1997

U.S. SENATE,
COMMITTEE ON LABOR AND HUMAN RESOURCES,
Washington, DC.

The committee met, pursuant to notice, at 10:15 a.m., in room SD-430, Dirksen Senate Office Building, Senator Jeffords, chairman of the committee, presiding.

Present: Senators Jeffords, Warner, Wellstone, and Reed.

OPENING STATEMENT OF SENATOR JEFFORDS

The CHAIRMAN. Good morning. This is the 10th and final hearing in a series of hearings related to the reauthorization of the Higher Education Act.

Two months ago, we focused on the Department of Education's management structure for the financial and delivery system. Today, we are examining issues related to the cost of higher education and the role that Title IV programs play in ensuring that students have access to the educational path of their choice.

Cost is a topic that cannot be avoided this morning. American families are concerned that the cost of a college education is spiraling beyond their reach. There is reason for this anxiety. For more than 15 years, college costs have risen at nearly double the rate of inflation. As Mr. Stewart will testify this morning, tuition at 4-year institutions has risen by 89 to 98 percent over the past 15 years, while median family income has risen by 5 percent.

Many parents with whom I have spoken fear that they will not be able to provide their children access to the same educational opportunities they themselves enjoyed. Adult students with whom I have spoken fear that they will not be able to afford the training that they will need to improve their career opportunities or preserve their jobs.

This morning, we will also discuss challenges to Title IV posed by significant changes in the demographics of the student population. Nearly half of all students attending community colleges where the average student is 29 years old. These typically independent students, 58 percent of whom are women, face different challenges than do their typically younger counterparts at 4-year institutions.

In addition, we must confront the challenges and opportunities posed by technology. Distance learning poses new challenges for ac-

(1)

creditation, while creating new opportunities for previously underserved communities.

And finally, as lifelong learning becomes a reality, we must determine how to best support the educational aspirations of the non-traditional mature students.

The challenge we have undertaken is complex and does not yield simple solutions. The Higher Education Act touches so many lives and influences so many goals, both public and private, that a full review of its successes and failures is a massive undertaking. But it is an undertaking that we must embrace. Students who participate in higher education enjoy tremendous social and economic benefits. Census data suggest that students with a bachelor's degree will earn an average of \$12,000 to \$14,000 more per year than a high school graduate. Our goal must be to extend these opportunities as broadly as possible.

As we begin this last in a series of hearings on the Higher Education Act, I think it is fruitful to reflect back upon the bipartisan aspirations that led to the landmark educational initiatives of 1965. President Lyndon Johnson, reflecting the beliefs of millions of Americans, stated that: "Every child must be encouraged to get as much education as he has the ability to take. We want this not only for his sake"—today, it should be "his or her sake," with the change in the last 20 or 30 years here, but anyway—"but for the Nation's sake. Nothing matters more to the future of our country—not military preparedness, for armed might is worthless if we lack the brain power to build a world of peace; not our productive economy, for we cannot sustain growth without trained manpower; nor our democratic system of Government, for freedom is fragile if citizens are ignorant."

These observations are as true today as they were 32 years ago. I look forward to hearing from this morning's witnesses and to working with the higher education community to make sure we do the best possible job.

Now we are ready to go.

Incidentally, Senator Kennedy will not be here this morning because he had a conflict and will not be able to be available at this time. Without objection, his prepared statement will be included in the record at this point.

[The prepared statement of Senator Kennedy follows:]

PREPARED STATEMENT OF SENATOR KENNEDY

Mr. Chairman, I commend you for scheduling this hearing today about the issues of access and cost for higher education that are so critical to millions of students.

And I join in welcoming our witnesses as we begin our final hearing on the reauthorization of the Higher Education Act.

We have been holding hearings in Washington and throughout the country to gather thoughts and opinions from a wide range of people affected by the decisions we make. We have talked to students, to colleges and universities, to education organizations, and to many others. This reauthorization is an excellent opportunity to strengthen our commitment to higher education and provide greater support for institutions and students alike.

Over the past few months, new concern has developed over the rising cost of higher education. All of us look forward to the work of the newly appointed Congressional Commission on College Costs. The issue concerns all of us as we struggle to keep the doors of higher education open for all students.

The hearing today will put some of these concerns in perspective, and make recommendations for changes to the act.

I look forward to the testimony of our witnesses today, and to continuing to work with the committee to ensure that all students have access to an affordable higher education. Only through a strong commitment to affordable higher education can we ensure a strong future for the Nation.

The CHAIRMAN. Mr. Stewart, please proceed.

STATEMENTS OF DONALD M. STEWART, PRESIDENT OF THE COLLEGE BOARD, WASHINGTON, DC; JOEL V. HARRELL, DIRECTOR OF FINANCIAL AID, UNIVERSITY OF TENNESSEE, CHATTANOOGA, TN, ON BEHALF OF THE NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS; AND BRYAN J. HANNegan, PRESIDENT, NATIONAL ASSOCIATION OF GRADUATE-PROFESSIONAL STUDENTS, WILMETTE, IL

Mr. STEWART. Senator Jeffords, thank you very, very much.

I am Don Stewart, president of the College Board, a national membership association of over 3,200 schools and colleges dedicated to advancing equity and educational excellence for all students. It is an honor to appear before you today, sir, as I speak to the issues related to reauthorizing the Higher Education Act of 1965. And in doing so, I applaud your leadership and that of Senator Kennedy in helping millions of American students achieve their educational aspirations.

At first glance, there appears to be ample evidence why American families are indeed concerned about college costs. For more than 15 years, college costs have risen at double and sometimes triple the rate of inflation. As these costs have gone up, median family income—which is now around \$42,000, I guess—has remained relatively stagnant, growing just 5 percent over this same 15-year period. As a result, a larger share of total family income is required to meet college costs.

Furthermore, this burden has increased most dramatically for lowest-income families, those falling beyond the median. In 1975, the cost to attend a public institution required 16 percent of a lower-income family's total budget; by 1992, public college costs took 25 percent of this family's income. To pay for private college costs, almost 72 percent of the low-income family's budget was required in 1992, up from 38 percent in 1975, a dramatic increase.

But the problem of rising costs must be placed in perspective, we believe at the Board, because despite these daunting statistics, the fact remains that college is accessible and affordable for a great majority of Americans and at a wide range of institutions.

Almost half of all postsecondary students attend community colleges, where tuition averages just \$1,300 per year. Furthermore, if you will look over here, sir, at our Exhibit A, which shows where students go, another 30 percent attend public, 4-year institutions

which average \$3,000 in tuition and fees, and almost half of the students who attend the private colleges and universities pay less than \$10,000 for tuition and fees. In fact, you can see at the very top of that chart that only 4.3 percent of all full-time undergraduates attend the highest-priced institutions—that is, those with tuition and fees of over \$20,000.

By focusing primarily on the highest-priced institutions, we believe the media have overstated the problem. This misinformation fosters public alarm and discourages many students, particularly poor students and families, from even considering the option of higher education and the chance of reaping the great economic benefits enjoyed by a college degree, which you cited in your opening remarks.

But to examine the college financing equation realistically, we must look not only at rising college costs, but also at financial aid available to students and their families. "Trends in Student Aid," which the College Board publishes annually, shows that more than \$50 billion was available in 1995-96 to assist with tuition, fees and other expenses of attending college. The Federal Government supplied 75 percent of that aid, the bulk of which—80 percent, in fact—was in the form of student loans.

As you can see in Exhibit B, which my colleague Scott Swail has put up now, 20 years ago, by contrast, 80 percent of Federal aid was in the form of grants. This shift from grants to loans falls hardest on the neediest students. Perhaps this is one reason why the gaps in college participation rates by income remain as wide today as they were in 1970, which we can now see in Exhibit C, college participation rates. In 1994, nine out of ten dependent, 18- to 24-year-old high school graduates and families with incomes above \$67,000 enrolled in higher education.

I think that light means I am running out of time.

The CHAIRMAN. Oh, no. We will let you go.

Mr. STEWART. Thank you.

In contrast, only six out of ten families with incomes below \$22,000 went to college—a gap of 30 percentage points. As a Nation, we can ill afford to allow this gap in opportunity to continue. And it is about the gap that we have our great concern.

We believe that part of the reason for this disparity is in the shifting composition of student aid. The most dramatic implications of a shift from grants to loans occurred in the Pell program. While total Pell Grant aid available has increased modestly, the maximum Pell Grant still covers only about 13 percent of the total cost at private universities, whereas it covered 39 percent in 1975. And at public universities, the maximum Pell Grant now covers about one-third of costs, having covered three-fourths of those costs in 1975.

I am very aware of the time, and I would like to come to an end in my remarks. Growing reliance on loans is our particular concern. Our concern for academically at-risk students who may not finish their degrees as a result of their loan dependence, and at risk-students generally, are suffering from this over-reliance on loans without the benefit of grants.

The information that I have presented tells us that despite rising college costs, a college education remains affordable for most stu-

dent and, despite the growth in the total amount of financial aid available, loans have replaced grants as the centerpiece of student aid, decreasing affordability for most needy students.

The current proposals for the use of the Tax Code unfortunately do not help students who fall below the median income; they are not eligible for these benefits. Indeed, the tax proposals, as important as they are to higher education and middle-income families, will do little to help those students in the greatest need. We are therefore very anxious to reemphasize the fact that need-based aid in the form of grants must not only be maintained, but strengthened, through the reauthorization process.

Thank you, sir.

The CHAIRMAN. Thank you very much.

[The prepared statement of Mr. Stewart follows:]

PREPARED STATEMENT OF DONALD M. STEWART

Good morning. My name is Donald M. Stewart. I am president of the College Board, a national membership association of 3,200 schools, colleges, universities, educational systems, and organizations dedicated to advancing equity and educational excellence for all students. It is an honor to appear before this Committee to present information on college costs and our recommendations for the reauthorization of the Higher Education Act of 1965. I applaud the bipartisan leadership of Senators Jeffords and Kennedy in helping millions of American students achieve their educational aspirations.

In addition to sponsoring familiar programs such as the SAT and Advanced Placement, the College Board conducts extensive research and provides reliable and accurate information on college costs and student financial aid. Each year, in September, we release two reports: *The College Board Annual Survey of Colleges and Trends in Student Aid*. Because information for the 1997 reports is still being compiled and analyzed, I will be presenting data from the 1996 release, with the promise of sharing the 1997 information with the members of this committee as soon as it becomes available.

Using the charts attached to this statement as a guide, I will present some of the conclusions we have drawn from our research efforts. Then I will summarize the College Board's recommendations for the upcoming reauthorization of the Higher Education Act.

College Costs and Affordability

The issue of rising college costs is a subject of enormous concern to American families. There is no doubt that college costs are increasing in our country, but I hope today to put this issue in context and provide some necessary perspective. *Yes college costs are rising, but a college education does remain affordable.*

At first glance, there appears ample reason why American families are concerned about college costs. For more than fifteen years, college costs have risen at double, and sometimes triple, the rate of inflation (see Figure 1).

There is no single, tidy explanation for the rise in college costs, partially because the economic forces driving costs and prices in the public and private sectors are quite different. For public higher education, tuition rates are much more a part of the larger decision making, policy setting process involving state boards, legislators, governors and other policymakers. In contrast, at private institutions, the educational costs, including institutionally provided student assistance faculty salaries and benefits, and technological improvements, are the largest factors that influence tuition growth.

Other factors that explain rising college costs are the costs to make campuses secure, provide expanded student services, meet regulatory requirements, and maintain physical facilities. I know that my colleagues on the panel that follows will provide further information about why college costs have risen.

As college costs have gone up during the last two decades, median family income remained relatively stagnant, growing just 5 percent (see Figure 2). As a result, a larger share of total family income is required to meet college costs. This is true for all income levels, but sadly, the burden has increased most dramatically for lowest-income families because of widening income disparities in the 1980's and 1990's. To illustrate, in 1975, the cost to attend a public institution—required 16 percent of a lower-income family's total budget. By 1992, public college costs took 25 percent of this family's income (see Figure 3). To pay for private college costs, almost 72 per-

cent of a low-income family's budget was required in 1992, up from 38 percent in 1975 (see Figure 4).

But the problem of rising costs must be placed in perspective. Despite these daunting statistics, the fact remains that college is accessible and affordable for a great majority of Americans, and at a wide range of institutions. The United States continues to extend opportunities to a larger percent of the population than any country in the world.

Almost half of all postsecondary students (45 percent) attend community colleges where tuition averages just \$1,300 per year (see Figure 1). Another 30 percent attend public four-year institutions which average \$3,000 for tuition and fees, and almost half of the students who attend private colleges and universities pay less than \$10,000 for tuition and fees (see Figure 5). In fact, only 4 percent of all full-time undergraduates attend the highest-priced institutions, that is, those with tuition and fees of over \$20,000. **By focusing primarily on the highest-priced institutions, we believe the media have overstated the problem.**

Beyond the statistics and trends, there are individual students, from individual families, who are simply trying to better themselves. They look to higher education as the best means to compete in the global economy. Each time there is a newspaper story that focuses on the highest priced institutions, it exaggerates the problem of college costs and ignores the fact that the vast majority of students pay less than \$4,000 a year for tuition and fees. This misinformation fosters public alarm and discourages many students and families from even considering the option of higher education and the chance of reaping the greater economic benefits enjoyed by those with a college degree.

Access and Student Aid

To really examine the college financing equation, we must look not only at rising college costs, but also at financial aid available to students and their families.

The College Board's report, *Trends in Student Aid 1986 to 1996*, shows that more than \$50 billion was available in academic year 1995-96 to assist with tuition, fees and other expenses of attending college (see Figure 6). The Federal Government currently supplies 75 percent of this aid. After adjusting for inflation, the total amount of aid available is 75 percent higher than a decade ago, and 4 percent higher than the previous year (see Figure 7).

Our *Trends* report also shows that if we add up all Federal, State, and institutional aid awarded to students, we see that the balance of student assistance has shifted increasingly away from grant aid toward loans. The main reason for this change is that the bulk of Federal student aid, 80 percent, is in the form of student loans. Twenty years ago, by contrast, 80 percent of Federal aid was in the form of grants (see Figure 8). Now, grants represent 42 percent and loans 57 percent of a student's total award from all sources, whereas just ten years ago, students received virtually equal amounts of loans and grants (see Figure 9). Private sources, including institutions themselves, have made up much of the difference in lost Federal grant aid.

Federal student aid, since 1975, has evolved from a grant-based to a loan-based system with the main source of growth each year in loan programs. In contrast to loan aid over those same years, there has been only modest inflation-adjusted growth in Pell Grants, and stable support for the campus based and SSIG programs under Title IV of the Higher Education Act (see Figure 10).

The shift from grants to loans falls hardest on the neediest students. Perhaps this is one reason why the gaps in college participation rates by income remain as wide today as they were in 1980 (see Figure 11). In 1994, the last year for which data are available, 88 percent of dependent 18 to 24 year old high school graduates in the highest family income quartile were either currently enrolled or had enrolled in higher education. For those in the lowest income quartile, the college participation rate was 58 percent, a gap of 30 percentage points. In 1970, the gap between the highest and lowest income quartiles was 33 percentage points. In other words, approximately 6 out of 10 students from a family with an income below \$22,000 attend college, while almost 9 out of 10 students from families with incomes above \$67,000 pursue a college degree. As a nation we can ill afford to allow this gap in opportunity to continue. We must develop and implement strategies that enable students from the lowest income families to attend college at the same rate as those from the wealthiest families.

Part of the explanation for this disparity, we believe, lies in the shifting composition of student aid. The most dramatic implications of the shift from grants to loans occurred in the Pell program. While total Pell Grant aid available has increased modestly, appropriations have been spread over a larger eligible population. Furthermore, the maximum Pell Grant has dwindled in significance relative to the cost of attending both public and private higher education institutions. The maximum

Pell Grant now covers approximately 13 percent of the total costs at private universities whereas it covered 39 percent in 1975-76. And at public universities, the maximum Pell Grant now covers about one third of costs but covered three-fourths of the costs in 1975-76 (see Figure 12).

As a result of this shift from grants to loans, about half of all 1995-96 graduates borrowed to meet their college costs, and have an average debt of approximately \$13,000, according to preliminary data from the National Center for Education Statistics. These levels represent a dramatic growth since 1992 when the average indebtedness was \$6,400.

Growing reliance on loans suggests that excess borrowing is a problem for many students, in particular, academically at-risk students who may not finish their degrees, low-income students, and students who will enter low-paying fields. These groups of students are placed in financial jeopardy when they rely on loans to finance their postsecondary education.

The information we have presented tells us that

- despite rising college costs, a college education remains affordable for most students; and
- despite the growth in the total amount of financial aid available, loans have replaced grants as the centerpiece of student aid decreasing affordability for the most needy students.

Reauthorization of the Higher Education Act

The information on college costs and trends in student assistance provides a framework for the College Board's recommendations on the upcoming reauthorization of the Higher Education Act of 1965, already submitted for the record.

The College Board is committed to promoting educational equity and excellence for all students and broadening access to higher education. While much recent attention is focused on using the tax code to help pay for college the College Board believes that these proposals should not substitute for, or reduce support for, need based student assistance. Indeed these tax proposals will do little to help those students in the greatest need—those from families too poor to owe Federal income taxes and older self supporting students. Nor will these proposals help close the gap in college participation rate by income levels.

At the same time, we want to emphasize that we believe targeted use of the tax code—incentives for college savings, restoration of student loan interest deductibility and permanent extension of Section 127 of the tax code—can complement the existing need based aid programs.

The focus of Federal higher education policy has long been to promote and equalize access, especially for those with the fewest resources. We believe that the most effective strategy for promoting equity and broadening access is the Title IV programs of the Higher Education Act. On behalf of our membership, I urge the members of this Committee to strengthen and sustain need based student assistance during the reauthorization of the Higher Education Act.

Because I believe so strongly that ensuring access to educational opportunities is an investment in our future, I am troubled that huge gaps persist in who attends and who benefits from higher education in America. As I have suggested, part of the explanation for this disparity can be attributed to the shifting composition of student aid away from grants and toward loans noted above. With the balance shifting more and more toward loans and away from grants, the most disadvantaged students increasingly look at options other than college. Middle- and high-income students continue to attend college in ever-increasing numbers, but low income students attend in numbers similar to those of over 15 years ago.

College Board members call upon this committee to bolster the existing components of student financial aid by restoring the purchasing power of the Pell Grant program in the upcoming reauthorization while also strengthening the campus-based programs.

The restoration of Pell purchasing power would have a significant impact on the ability of low and moderate income students to pursue a postsecondary education. I firmly believe that the clearest and most effective federal policy for increasing educational opportunity would be restoring the purchasing power of the Pell Grant. The Administration's recommendation to increase the maximum Pell Grant by \$300 for FY 1998, bringing it to \$3,000 is a step in the right direction, but makes only a small dent in reversing the erosion of Pell Grant's purchasing power since the 1970's.

In addition to restoring the purchasing power of the Pell Grant program, our members urge the Committee to strengthen campus-based programs—Federal Supplemental Educational Opportunity Grant and Federal Work Study programs. Stronger campus based programs will be an important step in reducing student dependency on loans.

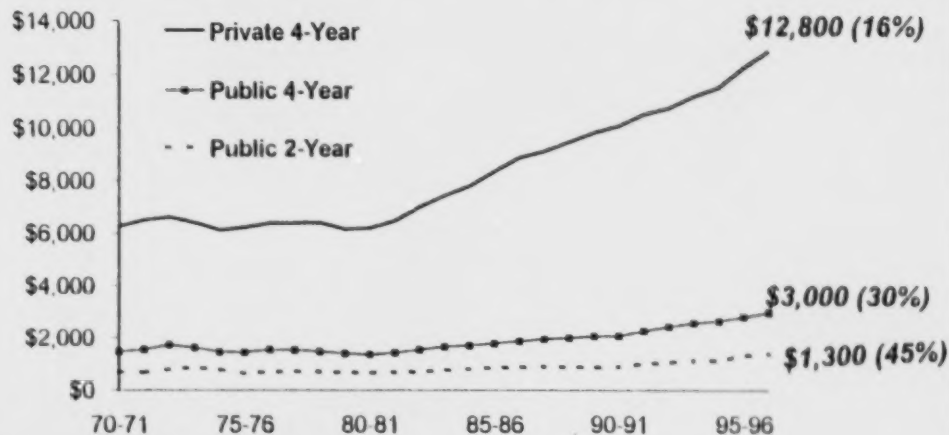
Strengthening the student financial assistance program will not by itself ensure equity or success. For this reason, the College Board believes that the Higher Education Act should provide more support for precollegiate outreach and early awareness programs through the TRIO programs in Title IV, such as Upward Bound, Educational Opportunity Centers, and Talent Search. I know that you have had extensive hearings on this subject, including that given by College Board Ann Coles, Senior Vice President, The Education Resources Institute. I underscore that testimony and its recommendations and support efforts to strengthen these programs that have a positive impact on needy students by providing early talent identification, early college awareness opportunities and academic support to prepare these students for college.

Finally, more must be done to ensure student success and completion of post-secondary studies, particularly by traditionally underrepresented students. Access does not ensure college success. For this reason, the College Board supports efforts to strengthen college level programs such as TRIO Student Support Services. These programs provide students from low income families with tutoring, counseling and remedial instruction. Currently students receiving this additional support are more than twice as likely to remain in college than those students from similar backgrounds who did not participate in such a program.

Thank you for the opportunity to appear before this committee. The College Board looks forward to providing you with additional information on college costs and working with you on the reauthorization of the Higher Education Act. I will be happy to answer any questions.

Figure 1

Average Tuition, 1970-96 (with percent undergrad enrollment)



Adjusted for Inflation

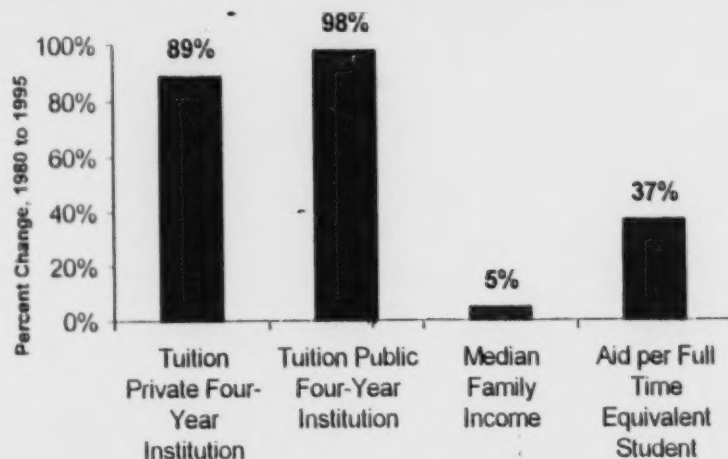
Note: 8% of students attend private, for-profit institutions

Testimony: Committee on Labor and Human Resources, U.S. Senate



Figure 2

15-Year Changes in Tuition, Family Income and Student Aid



Adjusted for Inflation

Testimony: Committee on Labor and Human Resources, U.S. Senate

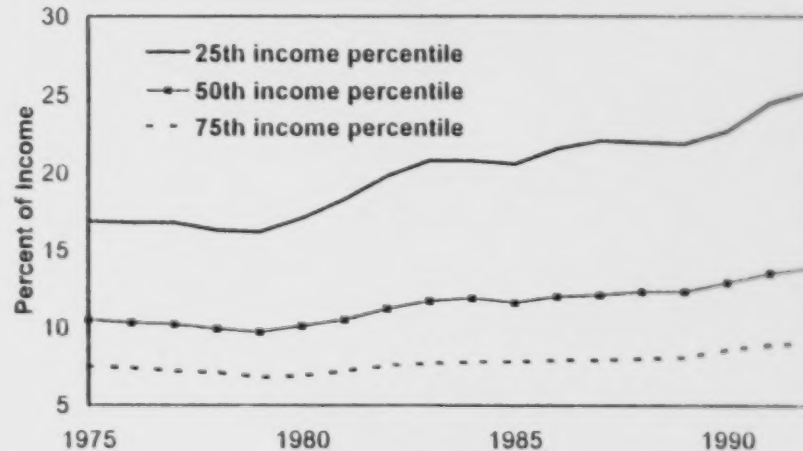
14



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Figure 3

Cost of Attendance at Public Institutions . . .



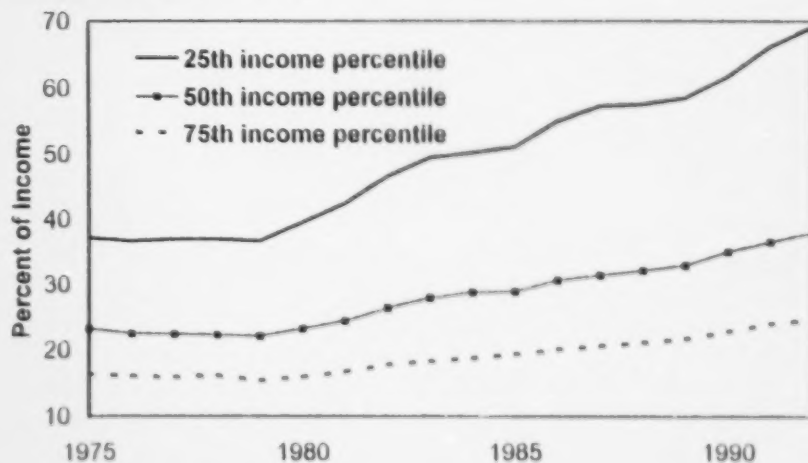
As a Share of Family Income

Testimony: Committee on Labor and Human Resources, U.S. Senate

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Figure 4

Cost of Attendance at Private Institutions . . .



As a Share of Family Income

Testimony: Committee on Labor and Human Resources, U.S. Senate

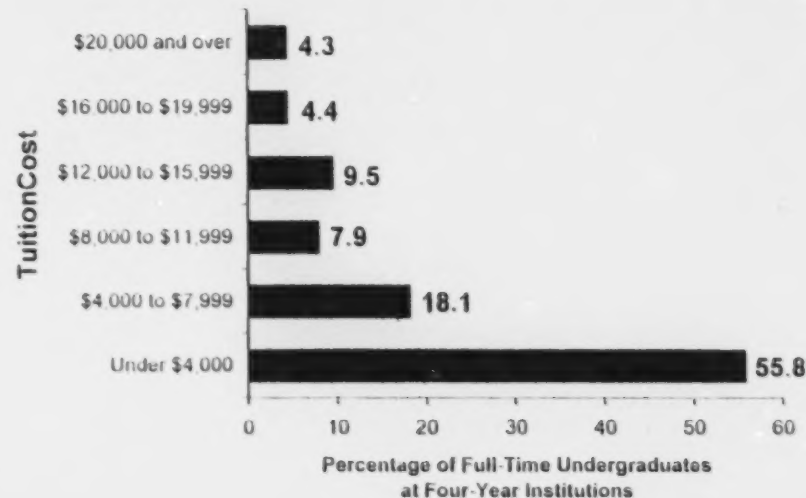
16



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Figure 5

Where Students Go . . .



Distribution by Tuition and Fees, 1996-97

Testimony: Committee on Labor and Human Resources, U.S. Senate



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14

13



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Figure 7

Financial Aid Distribution 1986-87 to 1995-96

Current Dollars										
	1986 87	1987 88	1988 89	1989 90	1990 91	1991 92	1992 93	1993 94	1994 95	Estimated 1995 96
Grants	9,934	10,745	11,691	13,219	14,268	15,413	16,904	18,661	20,085	21,029
Loans	10,182	12,493	13,198	13,414	13,890	15,232	16,222	22,551	26,100	28,702
Work	929	939	925	982	728	790	780	773	732	916
Total Aid	20,745	23,973	25,911	37,297	29,875	32,408	33,906	41,983	46,913	50,349

Constant 1989 Dollars										
	1986 87	1987 88	1988 89	1989 90	1990 91	1991 92	1992 93	1993 94	1994 95	Estimated 1995 96
Grants	13,011	14,130	14,700	15,863	16,159	16,090	16,243	16,426	20,340	20,744
Loans	13,949	16,438	16,662	16,087	16,797	16,788	17,337	23,499	26,483	28,540
Work	892	926	787	796	628	827	829	829	792	909
Total Aid	26,422	31,411	32,098	32,750	32,783	33,715	37,414	42,729	47,599	49,899

Percentage										
	1986 87	1987 88	1988 89	1989 90	1990 91	1991 92	1992 93	1993 94	1994 95	Estimated 1995 96
Grants	47.9	45.0	45.8	49.4	49.2	50.6	51.4	49.4	42.8	41.8
Loans	49.1	52.3	51.7	49.1	49.2	47.0	49.3	53.7	55.6	57.0
Work	2.9	2.7	2.5	2.5	2.3	2.3	2.2	1.9	1.9	1.3
Total Aid	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

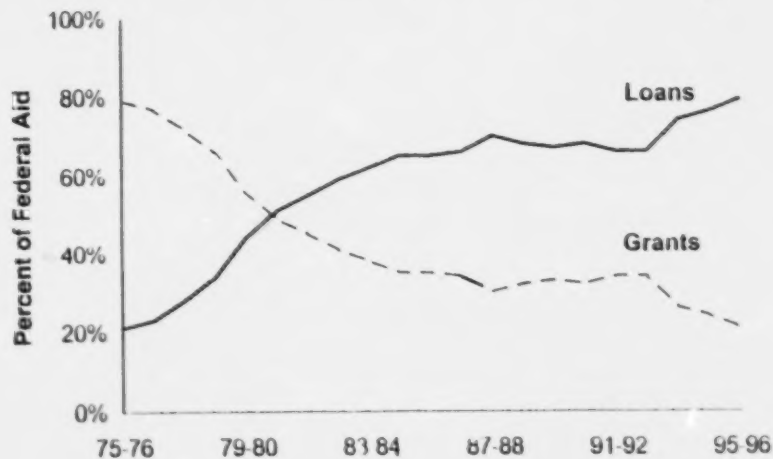
Testimony: Committee on Labor and Human Resources, U.S. Senate



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Figure 8

Loans and Grants . . .



The Shifting Balance of Federal Aid

Testimony: Committee on Labor and Human Resources, U.S. Senate

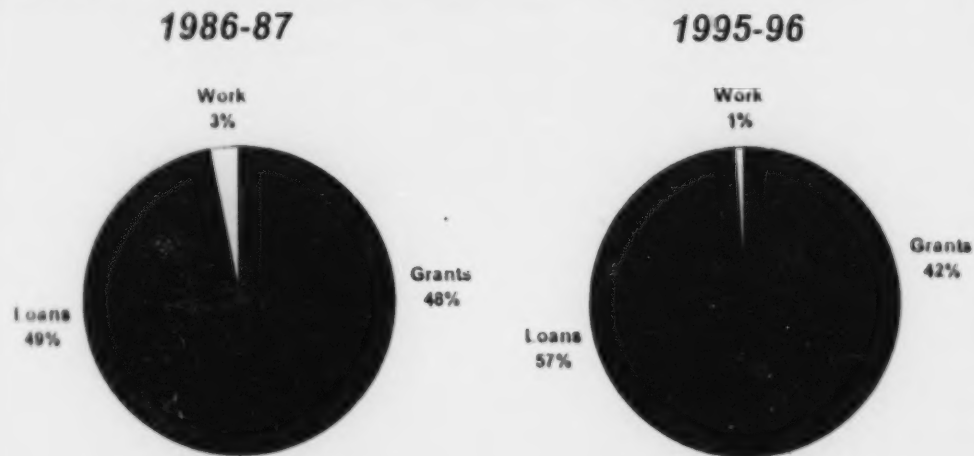
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Figure 9

Comparison of Student Aid Distribution, 1986-87 to 1995-96



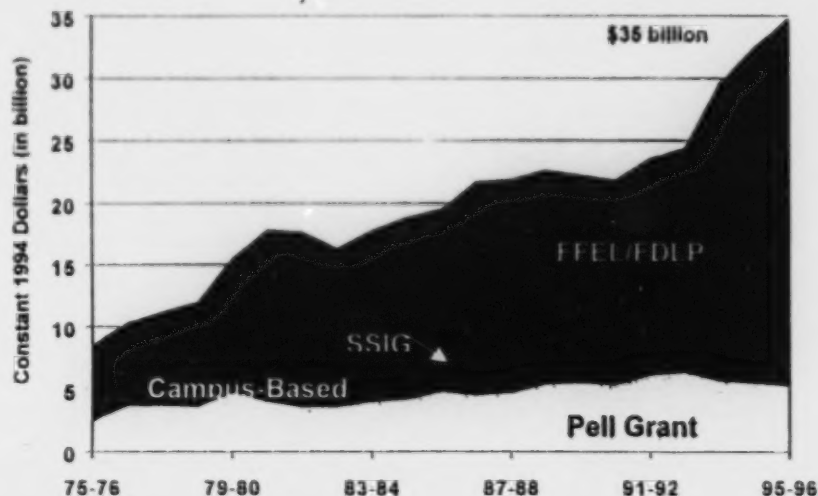
Testimony: Committee on Labor and Human Resources, U.S. Senate



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Figure 10

Federal Aid to Students, 1975-95



Adjusted for Inflation

Testimony: Committee on Labor and Human Resources, U.S. Senate

22



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Figure 11

College Participation Rates 1970-94



by Family Income Quartile

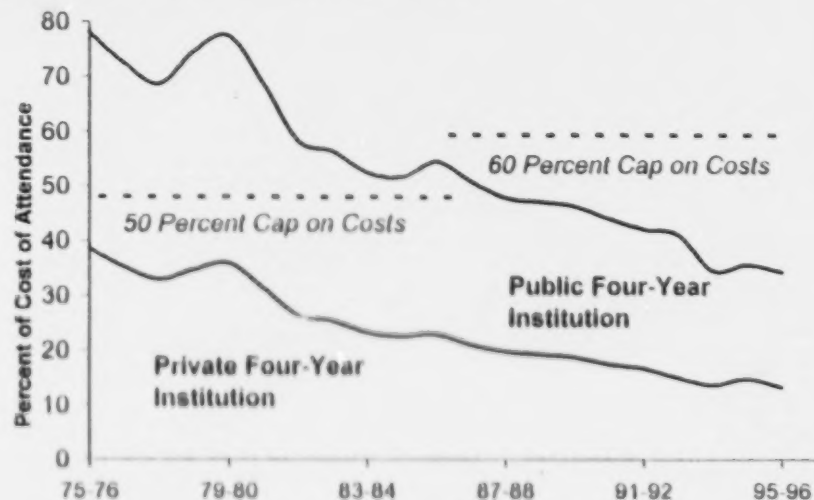
Testimony: Committee on Labor and Human Resources, U.S. Senate



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Figure 12

Purchasing Power of the Maximum Pell Grant



The CHAIRMAN. Senator Frist may be on his way—I am not sure—we have a very confusing situation on the floor. I am gambling that it is so confusing that there will be lots of gaps before the next vote; we will see who wins that one. There is a vote supposedly scheduled now, but I do not think it is going to occur.

Our second witness is Dr. Joel Harrell. Dr. Harrell has served of director of financial aid at the University of Tennessee at Chattanooga since 1992.

We are pleased to have you here, Dr. Harrell, and I will apologize to Senator Frist for not waiting for him to be able to introduce you.

Please proceed.

Mr. HARRELL. Thank you, Senator Jeffords.

Let me thank you and the members of the committee for the opportunity and invitation to testify.

I am Joel V. Harrell, director of financial aid at the University of Tennessee at Chattanooga, and I am testifying on behalf of NASFAA, which represents financial aid administrators at over 3,200 schools in all postsecondary sectors. I currently chair NASFAA's Legislative Issues Task Force.

Access to a postsecondary education must be maintained and extended if all of our citizens are to receive those economic and personally enriching benefits conveyed by such educational achievement. As aid administrators, we understand what increasing college costs means to the average student and family, but I will leave it to others here to discuss that issue since we do not decide pricing policies.

Financial aid administrators can inform you when the law works, what needs to be modified or eliminated, and what new challenges need to be met. It is important that this reauthorization of the Higher Education Act build on what works well.

Progress can be achieved in many areas without significant budget costs. Our recommendations will bring savings to taxpayers in postsecondary institutions, thereby benefiting our students and their families. The Federal Pell Grant, the three campus-based, and the Federal student loan programs are fundamentally sound. However, the grant programs are woefully underfunded and unable to adequately serve the financial needs of students and their families, which is very frustrating for our community.

Twenty years ago, the Federal Pell Grant maximum award was \$1,400. Since then, lack of real program growth has eroded the program as the foundation of aid for those of limited economic means. The Washington Post recently noted that the purchasing power of the Pell Grant has fallen 37 percent since 1980. President Clinton has recommended a \$300 increase for fiscal year 1998 and a maximum award which brings it to \$3,000, and the appropriations committees have agreed with that amount.

The Post article continues: "If the expansion is approved by Congress, the value of the award would still be 27 percent less than it was worth in 1980."

In the 1992 reauthorization, both House and Senate authorizing committees reported bills containing a Federal Pell Grant entitlement. If the grant-loan imbalance is to be corrected, there needs to

be an assurance of funding. An entitlement program is the only conceivable legislative option.

Proposals before Congress would implement various tax benefits for postsecondary expenses. While NASFAA believes that middle-income citizens should receive a guaranteed education tax cut, we also believe that low-income families simultaneously should be guaranteed Federal Pell Grant funding and an award level that keeps pace with their financial needs.

We recommend increasing the maximum authorized Federal Pell Grant to \$5,000, with \$200 annual increases thereafter. Increased grant funding is necessary to redress both the reduction in purchasing power of Federal Pell Grants and the shift away from grants to loan funding. We would retain the campus-based programs with moderate improvements, and these recommendations are in my written statement.

Access to higher education institutions through use of loan capital must be assured, and we believe that if a lending institution wishes to participate in the Title VI loan programs, that it must lend to all eligible students at all eligible Title IV institutions. NASFAA suggests that the origination fee and insurance premiums deny student borrowers all the funds they qualify for and should be eliminated. NASFAA supports continuation of the Federal student loan subsidies. They are appropriate student benefits which, if eliminated, would increase student loan debt.

NASFAA recognizes that the cost of education for a first-year or second-year student is no less than that for juniors and seniors. We recommend a base year loan maximum of \$5,500 per year, so that undergraduate annual loan limits would be the same during the borrower's program of study, thereby allowing students to stay within one Federal loan program and not have a deterrent in non-Federal loans.

NASFAA's proposal meets the needs of graduate and professional students with a modest increase in the base year loan limit to \$10,000. The additional unsubsidized loan program would be limited to cost of attendance minus other aid which would allow graduate and professional students to use Federal loans and to avoid private loans.

Sensitive to arguments that students are borrowing too much, we recommend permitting schools to set lower institutional annual limits for Part B and Part D loans on an institution-wide basis or by program or class year and to choose whether those students can borrow unsubsidized Stafford loans. This change would help limit excessive borrowing and thereby reduce defaults.

NASFAA recommends several needs analysis formula changes which address the issue of access and which may assist in simplifying the Federal aid application form, which are detailed in my prepared statement and in NASFAA's reauthorization recommendations document.

We believe you have a rare opportunity to reduce unnecessary paperwork and regulations of financial aid offices without placing taxpayer dollars at risk, while ensuring proper Title IV management. NASFAA suggests that a one-size-fits-all regulatory approach does not serve the interests of either the Government or

postsecondary institutions, and our suggestions are detailed in NASFAA's reauthorization recommendations document.

Graduate and professional education is one area of postsecondary education facing serious access problems. Funding for Title IX has been substantially reduced in the last several years. Study after study documents the value of graduate education, not only for the individual, but also in increased productivity and innovation that is necessary if this Nation is to continue or, in many areas, regain its preeminent place in our global economy. NASFAA endorses the Title IX recommendations forwarded by our sister associations.

I want to thank you again for the opportunity to testify today, and I look forward to answering any questions you may have.

The CHAIRMAN. Thank you, Doctor.

[The prepared statement of Mr. Harrell follows:]

PREPARED STATEMENT OF JOEL V. HARRELL

Mr. Chairman and members of the committee, thank you for the invitation to testify on the reauthorization of the Title IV student aid programs and access to postsecondary education. My name is Joel V. Harrell and I am Director of Financial Aid at the University of Tennessee at Chattanooga. I'm appearing on behalf of the National Association of Student Financial Aid Administrators (NASFAA)—a membership organization representing nearly 9,000 financial aid administrators at over 3,200 schools in all postsecondary sectors. I currently chair NASFAA's Legislative Issues Task Force.

Access to a postsecondary education must be maintained and extended if all of our citizens are to receive the benefits, both those economic and personally enriching benefits, conveyed by such educational achievement. As financial aid professionals our daily work involves providing the information and the means for Americans to receive those benefits. As aid administrators, we understand better than most what increasing college costs mean to the average student and family, but I will leave it to others at this hearing to discuss that issue. Given the nature of our jobs on campus, as aid administrators, we are not in a position to decide pricing policies that are set by our college presidents or Boards of Trustees or state and local governments. However, financial aid administrators are in a position to demonstrate to this committee what in the federal student assistance law works well, what needs to be modified or eliminated, and what new challenges need to be met.

We have prepared recommendations for changes in the Higher Education Act that are based on 12 principles that are attached to my testimony. We challenge policymakers and the Congress in this reauthorization to produce effective legislation that meets the needs of Americans in financing their postsecondary education. We believe our recommendations will enhance and improve student access to a postsecondary education. At a minimum, it is most important that this reauthorization of the Higher Education Act build on what works well in the current system and reform or eliminate what works less well. Progress can be achieved in many areas without significant budget costs and many NASFAA recommendations will bring savings to taxpayers. Many of our recommendations also provide savings to postsecondary institutions which will help reduce their costs ultimately benefiting our students and their families.

I call your attention to our complete set of recommendations which have been submitted for your consideration. I'd like to highlight our recommendations in four general areas.

1. The grant/loan imbalance. Our recommendations seek to:

- remedy the decreasing purchasing power of the federal need-based grant programs by authorizing the Federal Pell Grant as a true entitlement; and,
- address the increased reliance on student loans by providing responsible loan limit increases to groups of students who need them and enabling schools to limit student borrowing, where appropriate.

2. The structure of the federal student loan programs. Our recommendations seek to:

- reduce the cost of borrowing for students by eliminating the origination fee and insurance premium;
- maintain the Federal Family Education Loan and Federal Direct Student Loan programs as separate programs while preserving those features that enable each to operate with maximum efficiency; and,

* continue permitting schools to choose the federal loan program that best serves its students.

3. Legislative and regulatory relief for students and schools. Our recommendations seek to:

- * eliminate unnecessary program participation requirements for students and schools;
- * distinguish among schools based on performance;
- * reinforce the ability of schools to respond to the specific needs of their student populations; and,
- * eliminate statutory and regulatory barriers to new uses of technology, including distance learning.

4. The need analysis and delivery system. Our recommendations seek to:

- * eliminate formula treatments that add complexity to the application without corresponding benefits to the student;
- * add income protection for independent students without dependents; and,
- * modify the formulas and data elements to make them more equitable while retaining strong support for the aid administrator's ability to exercise professional judgments in those cases which necessitate such consideration.

Today, I wish to address the critical role played by the Title IV programs. In general, you should know that each of these programs is fundamentally sound and is working efficiently and effectively to meet their individual purposes. However, the grant programs are woefully underfunded and, therefore, unable to adequately serve the financial needs of students and their families.

Financial aid administrators know first-hand the frustrations of students and families who do not qualify for, or who are not adequately served by the Title IV programs. These frustrations are fueled in part by the large historical gap between program authorization levels and annual federal program appropriations. I am sure you are all familiar with these gaps which come at a time when family incomes have not kept pace with costs at some postsecondary institutions.

I begin with NASFAA's recommendations for the Federal Pell Grant Program.

Federal Pell Grant Program

Twenty years ago the Federal Pell Grant maximum award was \$1,400. Since then, lack of real program growth has taken away from the program's purpose which is to be the foundation of award packages for students and families of limited economic means. In January 1997, the *Washington Post* noted in a news story, "The purchasing power of the Pell Grant has fallen 37 percent since 1980, according to the Department of Education." President Clinton has recommended a \$300 increase for FY-98 in the maximum award bringing it to \$3,000. The *Post* article continues, "If the expansion recommended by Clinton is approved by the Congress, the value of the award would still be 27 percent less than it was worth in 1980."

NASFAA notes that in the 1992 reauthorization both the House and Senate authorizing committees reported bills containing a Federal Pell Grant entitlement. If the grant/loan imbalance is to be corrected, then students need an assurance of funding and an entitlement program is the only conceivable legislative option.

Tax proposals before this Congress, including those proposed by the Administration, would implement tax credits and various other tax benefits for postsecondary expenses. While NASFAA believes middle-income citizens should receive the benefits of a guaranteed-education tax cut, we also believe that low-income families should simultaneously be guaranteed Federal Pell Grant funding and a maximum award level that keeps pace with student and family needs.

NASFAA recommends an increase in the authorized Federal Pell Grant maximum award to \$5,000—which is only \$500 more than the currently authorized maximum award—with \$200 annual increases thereafter. The \$5,000 maximum award amount recognizes the necessity to increase grant funding for students, not only to redress the reduction in purchasing power of Federal Pell Grants, but also to redress the shift away from grants to loan funding for many Title IV aid recipients. If this program is truly to be the foundation of aid packages, our recommended maximum award level realistically represents the needs of students and families.

Federal Supplemental Educational Opportunity Grant Program

In FY-97, the Federal Supplemental Educational Grant Program will provide 991,000 awards to students, especially lower income students to assist with post-secondary expenses. Most dependent recipients have family incomes of less than \$30,000. We recommend reauthorization of the FSEOG program with the current matching requirement from schools and retention of the minimum and maximum award amounts.

NASFAA suggests that some needy students are denied FSEOG assistance, and in some cases, are needier than Federal Pell Grant recipients. We believe schools should have greater flexibility in awarding these funds to meet the pressing needs

of these students. Our recommendation would allow schools the option to award up to 25 percent of FSEOG funds to Title IV eligible students based on school-defined exceptional financial need. If a school decided to make use of this capped authority, the balance of FSEOG monies would go to Pell eligible students. Schools would retain the option of awarding all of FSEOG funds under current rules.

Federal Work-Study Program

One of the most effective student aid programs is the Federal Work-Study Program which will provide 945,000 student job opportunities in FY-97. Nearly 70 percent of these funds go to students with family incomes below \$24,000. Studies show a positive correlation between work in an FWS job and academic performance.

In recent years, the community service component of FWS has taken on increased importance. While NASFAA urges schools to use FWS for community service activities, we believe incentives are more effective than mandates in this area. Despite their desire to promote community service, financial aid administrators have told NASFAA that colleges often have difficulty reaching the 5 percent requirement. Some factors that create these difficulties include the school's location, an abundance of postsecondary institutions within a small geographic area, well-established campus and community service programs that use all available community service jobs, shortages of community service jobs in some areas, and an ethic among some community service groups against paid work for "volunteer" activities. In place of the current law's penalty for non-compliance with a 5 percent requirement for community service, NASFAA recommends an amendment adding an allocation bonus so that 25 percent of appropriated funds above \$800 million are distributed to schools that in the prior year allocated at least ten percent of their FWS funding for community service activities.

Federal Perkins Loan Program

We believe the Federal Perkins Loan Program continues to complement the FFEL and Direct Loan Programs by providing lower interest loans to needy students. Approximately, 788,000 loans will be made in FY-97, with 25 percent of these loans going to students with family incomes of less than \$18,000 and 83 percent to families with incomes less than \$30,000.

NASFAA would change the Federal Perkins Loan maximums to match those we recommend for the Part B and D loan programs and we would retain the current campus matching fund requirement which increases the amount of funds available to students.

NASFAA also recommends changing from a cohort default rate to a cumulative default rate calculation in this program. We believe a cumulative default rate is a more accurate and fair default indicator than the current treatment. By comparing loan volume in default to total loan volume, problems with a cohort default rate such as a large number of students with small loan balances who default results in an inaccurate picture of defaults at a school. Such a school may have only an inconsequential loan volume in default compared to total loan volume in repayment. Yet, in this case, a cohort default rate would be an inaccurate indicator of problems. Finally, NASFAA makes this recommendation, not only for the reasons stated, but also because the fundamental nature of the Federal Perkins Loan Program is that schools have more control over loan collections than is the case for the FFEL Program.

NASFAA also proposes that once a Federal Perkins Loan is rehabilitated, fully repaid, or made current after default that it should not be considered in default for purposes of calculating a school's Perkins default rate. It is simple justice that with successful efforts to bring a defaulted loan out of that status, schools should not be assessed a possible punishment.

Federal Part B and D Student Loan Programs

Combined the Federal Family Education Loan Program and the Federal Direct Loan Program will provide in FY-97 nearly \$34 billion in loan capital for some 7.9 million loans generating the bulk of access funds for individuals seeking a postsecondary education. The loan programs should be continued with current student subsidies in place, student fees should be eliminated, maximum loan limits should be modestly increased over the next five years with schools having the authority to reduce such limits as necessary, and both the FFEL and Direct Loan Program should be maintained after Congress determines loan subsidy levels and benefits.

Access to higher education institutions through use of loan capital must be assured in the everchanging banking world. NASFAA believes no FFEL lending participant should be allowed to discriminate among schools or students in lending or administrative practices. If a lending institution wishes to participate in the Title IV loan programs, then it must lend to all eligible students attending all eligible postsecondary institutions. Acceptance of this recommendation would prevent the

so-called "creaming" of low-risk borrowers and, finally, end what many see as discrimination in the FFEL Program.

Implemented as a temporary measure in the early 1980s, the origination fee charged students should be eliminated for both the FFEL and Direct Loan programs. We also advocate elimination of the insurance premiums charged borrowers. While a federal budget convenience, NASFAA suggests the origination fee and insurance premium in both programs are a major handicap for student borrowers denying them all the loan funds they qualify for and are necessary to finance their education.

NASFAA supports continuation of the federal student loan subsidies, including, but not limited to the in-school subsidy, grace period, and deferments, in the belief that they are appropriate student benefits which, if eliminated, would either increase student loan debt or help students remain in school free of additional costs.

For undergraduate students, NASFAA recognizes that the cost of education for a first-year or second-year student is no less than that for juniors and seniors. Costs for first-year students may even be higher than for other classes since there are one-time purchases that are not repeated.

The point is freshman and sophomores have the same tuition, room and board, and academic supply costs as upperclassmen. Consequently, NASFAA recommends eliminating loan maximums in the FFEL and Direct Loan Programs determined by year of study. Instead of three Stafford annual loan limits, NASFAA recommends a base-year loan maximum of \$5,500 per year for all undergraduates. Therefore, undergraduate annual loan limits would be consistent during a borrower's program of undergraduate study. In making these recommendations NASFAA suggests that increasing loan limits for first- and second-year borrowers will allow many students to stay within one federal loan program and not turn to private sector, non-federal loans. NASFAA also notes that loan limits for freshmen are at the level set by the 1986 HEA reauthorization.

NASFAA recommends modest and responsible increases in these undergraduate annual loan limits of \$300 in the third and fifth years covered by this reauthorization legislation for both programs (subsidized and unsubsidized) to address necessary adjustments for inflation.

NASFAA's proposal meets the needs of graduate and professional students with a modest increase in the base year loan limit to \$10,000. The additional unsubsidized loan program would be limited to cost of attendance minus other aid which would allow graduate and professional students, by-and-large, to borrow from the federal loan programs and avoid private loans. In the third and fifth years covered by this reauthorization, the base year limits of \$10,000 would rise by \$500 each year for graduate/professional students.

Sensitive to arguments that students are borrowing too much, a NASFAA recommendation assists in this matter. The suggested amendment would permit schools to set lower institutional loan limits for Part B and Part D loans and to choose whether their students can borrow subsidized Stafford Loans.

This change would grant a school the authority to establish its own annual loan limits, at or below the maximum established in the HEA, on an institution-wide basis, or by program, or class year. However, an institution would not be permitted to require a borrower who has additional Subsidized Loan eligibility under the HEA annual loan limits to borrow an Unsubsidized Stafford Loan solely due to lower annual loan limits established by the institution. That is, borrowers must use up all Subsidized Loan eligibility up to the HEA maximum before they are eligible for an Unsubsidized loan. NASFAA believes this additional authority is necessary to help schools limit excess borrowing and better manage their default rates. This authority to reduce the maximum annual loan amounts would not apply to Section 428H, PLUS loans.

This recommendation gives schools the greatest flexibility to structure annual loan limits and institutional packaging policies and, at least, where loan limit policy is concerned breaks the "one size fits all" annual loan limit policy as is currently in the HEA. NASFAA recognizes this proposal to limit borrowing will result in a need for increased communication and consumer information for students, parents, and high school guidance counselors explaining the differences in costs of schools and the loan maximum policies selected by postsecondary institutions.

NASFAA urges the Congress to examine and resolve the conflicting provisions of the HEA which do not provide a level playing field between the FFEL and Direct Loan Programs and, especially, examine the area of loan incentives. NASFAA is aware that loan incentives may be a contentious issue, but it does go to the heart of the matter concerning the equity and policy considerations between the two loan programs. NASFAA urges the Congress to study and make a conscious decision as

to what policy outcome is desirable between provisions of the HEA that are in conflict.

Many observe the contradictions in the HEA have led to variations among the terms, conditions, and benefits between the two loan delivery programs. On one side of the equation, many point out that Direct Loan borrowers may use the FAFSA as a single application for federal assistance, including applying for Stafford loans which is an advantage over FFELP borrowers. Others suggest, the availability of an income contingent repayment option for Direct Loan is another advantage not offered to FFELP borrowers. Others note that while FFELP loans may be consolidated into Direct Loan Consolidation Loans, the opposite activity is precluded. NASFAA has addressed many of these concerns in its reauthorization recommendations.

A provision of law governing the Direct Loan Program, Section 455(a)(1), requires that "Unless otherwise specified in this part, loans made to borrowers under this part shall have the same terms, conditions, and benefits, and be available in the same amounts, as loans made to borrowers under sections 428, 428B and 428H of this title." While this is straight forward language mandating, unless otherwise specified, that Direct Loan borrowers have the same terms, conditions, and benefits as FFELP borrowers, contradictory law is evident in other HEA provisions. For example, Section 438(c)(2) authorizes lenders to charge an origination fee "not to exceed 3.0 percent of the principal amount of the loan . . ." Section 428(b)(1)(H) allows guaranty agencies to collect "a single insurance premium equal to than 1.0 percent of the principal amount of the loan . . ." A further example, Section 427A(j) permits a lender to charge a borrower an "interest rate less than the rate which is applicable under this part." The meaning of Section 455(a)(1) is contradicted by Sections 438(c)(2), 428(b)(1)(H), and 427A(j) which allow lenders, or other parties to the lending process, to offer benefits to FFELP borrowers that are not available to Direct Loan borrowers since such Direct Loan borrower benefits are not authorized by statute.

This is not an arcane policy debate, but goes to the heart of competition between these two federal loan programs. On one side many argue, the several conflicting provisions of the law need to be changed in both loan programs so that borrowers are treated equally. The law should be modified so that all borrowers' loans have the same terms, conditions, and benefits regardless of whether a school participates in the DL or FFEL Program. Further, competition between both programs should be on services and servicing provided, not on terms, conditions, and benefits offered to borrowers. Others argue, the law purposefully is contradictory in several provisions. Those conflicting provisions do not need to be clarified since they favor FFELP student borrowers depending on circumstances in the FFELP marketplace. The law should not be modified so that all borrowers are treated equally regardless of whether such a school participates in the DL or FFEL Programs. Further, competition between both programs should be on all aspects inherent in the loan programs including services and servicing provided, as well as, on terms, conditions, and benefits offered to borrowers.

Some would say allowing the lending community the advantage to offer borrower benefits not available to borrowers in the Direct Loan Program conveys an unfair advantage to lending institutions that they will use to drive schools out of the Direct Loan Program and, then, when they have won, withdraw those borrower benefits. Others would say once the subsidy levels for lending institutions are set by law, then they should be able to use their funds in any fashion that it chooses. The stakes in this debate are high and we urge the Congress to revisit this issue in this reauthorization and make a final determination as to what the Congress believes the appropriate level playing field policy should be in the area of incentives.

Need Analysis

NASFAA recommends several need analysis formula changes which address the issue of access and which may assist in simplifying the federal aid application form.

NASFAA recommends eliminating the simplified needs test (SNT) formula treatment. Under this formula, assets are excluded for families who have incomes below \$50,000 and who are eligible to file an IRS Form 1040A or 1040EZ or who are not required to file. We believe that the linkage with tax filing status significantly complicates the identification of eligible families. We believe that the complexity of the SNT is in the process of families determining their eligibility for the formula rather than in providing the information. NASFAA also is concerned about the \$50,000 threshold, specifically the presumption that families at this income level do not have significant assets, since under the current law, a single dollar of additional income is sufficient to completely eliminate the family from this formula treatment.

If the most important issue is ensuring that the student gets through the system, we believe it may be simpler to ask applicants to complete all questions rather than

to have them suffer problems and delays by not understanding what portion of the application to complete. Most families with lower income typically do not have significant assets, and thus will not be negatively impacted by the inclusion of assets in the formula. As an added benefit of eliminating this formula, availability of the asset information will provide a slightly more accurate assessment of eligibility for those families with assets.

We also recommend eliminating the automatic zero expected family contribution (EFC) formula treatment, which provides a zero EFC for those families with incomes of \$12,000 or less who are eligible to file an IRS Form 1040A or 1040EZ or who are not required to file. NASFAA is concerned about whether the current approach identifies and serves its intended audience. Again, the tax form a family is "eligible to file" is a central eligibility criterion for the formula. Many low income families go to tax preparers, who generally use the long form. These families are often not knowledgeable enough about the tax system to understand that they could have filed a simpler form thus making them eligible for this formula. If they were, they wouldn't have gone to the tax preparer in the first place. NASFAA does not anticipate any impact on the Free Application for Federal Student Aid (FAFSA). Families will complete all data items just as they currently do. If there is any negative formulaic impact resulting from this change, NASFAA believes that the recommendation to offset dependent student income in the amount of the negative adjusted parental available income will mitigate it.

NASFAA recommends increasing the income protection allowance for independent students without dependents. NASFAA recommends providing more generous treatment for this group of students and suggests an approach similar to that contained in the Administration's FY-98 Budget. This would provide income protection for these students at the same level as for independent students with dependents other than a spouse and parents of dependent students. NASFAA is also interested in exploring other approaches that might provide similar protection to this group of students in a different way.

Finally, NASFAA reaffirms the importance of ability to make professional judgment decisions and relocates authority to reduce or deny loans from section 428(a)(2)(F) in Part B to section 479A(d) in Part F.

NASFAA believes financial aid administrators must retain the authority to make professional judgment decisions in order to properly administer the student aid programs. This authority remains the one sure way for an individual student with a unique circumstance to receive appropriate treatment or for financial aid administrators to immediately intervene when a potentially fraudulent circumstance is identified.

NASFAA also believes the authority to reduce or deny a Part B loan is better placed in section 479A, along with other professional judgment HEA provisions. We believe this will strengthen the ability of financial aid professionals to exercise judgment where appropriate.

General Provisions

An important part of providing access to a postsecondary education includes counseling in addition to providing grant, work, and loan funds. Financial aid administrators believe students and families need counseling concerning their financing options for obtaining an education or loan repayment and debt burden in an effort to forestall a potential default. We believe these counseling sessions are valuable for students and families and are an integral part of our work. However, far too often aid administrators are frustrated that we cannot expend the proper amount of time in carrying out this responsibility because we are overwhelmed with bureaucratic paperwork. As a profession, we believe the Congress has a rare opportunity in this reauthorization to reduce unnecessary paperwork and regulation of financial aid offices without placing taxpayer dollars at risk and ensure proper Title IV stewardship and management.

To be frank, NASFAA believes that often the regulatory burden that our members complain about, comes not so much from regulations issued by the Department of Education, but from the Higher Education Act the Department must faithfully administer. Consequently, if one wishes to bring regulatory relief to postsecondary institutions and financial aid offices, then it is the law that must be streamlined or changed. Much of the current regulatory burden results from statutory provisions that have served their purpose and now are no longer necessary or provisions that should be modified to meet contemporary circumstances.

To cite several examples, NASFAA recommends modifying provisions dealing with entrance and exit interviews, refund policy, the 85/15 rule, ability-to-benefit rules, attendance policies, master calendar requirements, remedial education, I-9 employment verification, and technology policies. All these recommendations would reduce the regulatory burden placed on schools which would reduce costs, free time to

spend on critical financial aid office responsibilities, and still safeguard taxpayer funds and provide fundamental student services. Further, we urge the Congress to adopt a strategy of conscious regulatory relief. NASFAA proposes to change the HEA so that the Secretary must use multiple performance standards in determining the level of regulatory oversight of postsecondary institutions.

A "one size fits all" regulatory approach does not serve the interests of either the government or postsecondary institutions. For many years, and throughout the NASFAA reauthorization process, student financial aid professionals have urged that the micromanagement of their offices end and that substantial regulatory relief be implemented. NASFAA agrees and recommends an open-ended process which we believe meets that goal. NASFAA suggests a process where the Secretary negotiates the performance based/multiple standards with the higher education community based on what would best meet the goal of regulatory relief and of targeted regulations determining the performance of schools administering the Title IV programs.

In summary, while you may not recognize regulation as an access problem; it can be. Compliance with out-of-date or unnecessary regulations or laws, not only takes time away from important student and family counseling activities and other priorities, but such compliance tasks also increases colleges costs and constantly frustrates financial aid staff to the point where dedicated individuals burnout and leave the profession. We urge the Congress not to lose this opportunity to make a difference in this matter of concern to all of us.

Graduate Education

If there is one area of postsecondary education where we face serious access problems and concerns, not only as institutions, but also the results of which we will harvest as a nation, it is the financing graduate and professional education. Funding for Title IX of the Higher Education Act which governs the graduate and professional education programs has been substantially reduced in the last several years. And if that was not enough, the House-passed tax bill would require graduate students who are teaching or research assistants to pay taxes on the tuition waived by their school.

To gain access to their studies graduate and professional students increasingly rely on student loans provided by the Federal Government or by the private sector. Student debt from graduate work, combined with undergraduate debt, results in staggering sums for many who will be hard-pressed to repay in their chosen fields of study or many are forced to find more lucrative employment in areas outside their graduate areas of expertise. Study after study documents the value of graduate education, not only for the individual, but also in increased productivity and innovation that is necessary if this nation is to continue or, in many areas, regain its preeminent place in our global economy. NASFAA endorses the Title IX recommendations forwarded by our sister associations as a first step in meeting this access concern.

As I previously indicated, NASFAA has submitted to this subcommittee a comprehensive set of recommendations, rationale, and suggested legislative language. We encourage you to review this package and stand ready to offer our continued assistance as you develop your reauthorization legislation.

I want again to thank you for the opportunity to testify today. I look forward to answering any questions you may have.

Principles to Guide NASFAA's Reauthorization Recommendations

- Consider students' financial, application and delivery needs above all other partners in the student aid system.
- Maintain and encourage the equal treatment of students with similar circumstances.
- Support need-based awarding of student aid before merit-based awarding.
- Build program standardization.
- Safeguard taxpayer interests.
- Maintain the balance of student aid eligibility and funding across all sectors of higher education.
- Eliminate unnecessary and burdensome legislative and regulatory requirements.
- Encourage simplicity.
- Enable technology to streamline and enhance the delivery of financial aid and education.
- Invite and support efforts to improve the student aid delivery system.
- Promote programs and efforts that encourage student financial and academic planning at an early age.
- Provide schools the flexibility to respond to the specific needs of their students.

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The CHAIRMAN. Mr. Hannegan.

Mr. HANNEGAN. Good morning, Senator. My name is Brian Hannegan, and I am president of the National Association of Graduate and Professional Students, which represents the Nation's 2 million graduate and professional students in all 50 States.

I want to thank you and Senator Kennedy for the invitation to address you on important issues related to student debt and to graduate education. This committee has been a consistent supporter of graduate education over the years, and I thank you for your continued support.

I am in the fourth year of a doctoral program at the University of California at Irvine, and I have worked as a teaching and research assistance in addition to taking out student loans as a way of paying my way through graduate school. Now, while my student loan debt of \$15,000 over 9 years of college is not much, it is a mild story compared to those I have heard from my fellow graduate students around the country.

Some of our best and our brightest students are turning away from the fields that they love to pursue a career in a more lucrative field. Others are delaying the start of families, the purchase of homes, and the savings to defray college costs for their own children, all because of the massive student loan debts that they are incurring.

One of the more compelling stories that I have heard is that of Shelley, who returned to school as an adult to get a graduate degree in library science. She now works as a librarian in a small rural Maine community, making \$19,500 a year with no benefits, and she has student loans of \$38,000. She will be in repayment for the next 20 years, finally paying off her student loans at age 64.

This example and the others that I have included as an attachment to my written testimony, I have provided to you in the hope that you will take the time to read them and see the personal side of this tremendous debt problem that our Nation's graduate students now face. These examples are representative of a much larger problem that requires our immediate national attention.

Between 1993 and 1995, graduate and professional student borrowing increased from \$4.4 billion to \$7.7 billion, an increase of 74 percent in just 2 years. To assist students in managing their large debt loads, we recommend that this committee consider six specific measures that will, we believe, reduce the overall costs of obtaining and paying off a student loan, thereby alleviating the need for increased student loan dollars.

No. 1, preserve the exemption on graduate and professional loans; number two, allow a greater proportion of subsidized student loans on an annual basis; number three, reduce the student loan interest rate; number four, establish a loan repayment assistance program for public interest and public service careers; number five, reduce or eliminate origination fees; and number six, extend the interest-free grace period on subsidized loans to 1 year.

Each of these initiatives reduces overall costs of taking out a student loan. They provide access to higher education for low-income students who might not otherwise attend, and they ultimately provide for a smaller debt burden on the Nation's graduates.

We believe that an increase in the overall limit on student loans is an unwise move if the goal is to minimize student loan debt. Without an appropriate limit, total loan volume will surely increase to unmanageable levels which will seriously impact our graduates' economic stability and career choices.

However, this national student debt problem would not be as alarming if it were able to provide additional grant funds and scholarships and fellowships to assist students in meeting the rising costs of attending college. We support the current bipartisan initiative to increase the maximum level of Pell Grants, and we also applaud the recent House decision to set aside \$500 million in additional Pell funds for independent undergraduate students.

However, the only existing grant program for graduate students, the State Student Incentive Grant program, is slated for elimination in both appropriations bills currently pending. This is a move away from grant funds and toward student loans, particularly for graduate and professional students.

I would suggest that this committee can take the lead in addressing the problem of student debt for graduate students by developing and funding Federal grant programs for graduate students who demonstrate financial need, much in the same way you do with the Pell Grant program now.

We also support continued appropriations to the three Title IX graduate fellowship programs, including the GAANN program, Javits Fellowships for arts, social sciences and humanities, Patricia Roberts Harris fellowships for women and underrepresented minorities. While all are agreed that some form of reorganization of these programs is long overdue, we claim that the appropriate place to consider such changes is in reauthorization, and we would be happy to work with this committee to formulate a new program.

We believe that increased appropriations to these fellowship and grant programs provide the most direct and obvious way of limiting student loan indebtedness for graduate students.

In summary, it is clear that there is a definite national interest in maintaining the quality and vigor of our Nation's graduate enterprise. We are the teachers of tomorrow's students, the scientists who advance technology and our understanding of the world around us, and the scholars responsible for the discovery and dissemination of knowledge. By investing in the education of our Nation's graduate and professional students, we as a nation develop new strengths and enhance existing ones to preserve our place as a world leader.

However, our Nation's students are saddled with an enormous amount of debt which prevents us from working in careers which are societally important rather than financially lucrative. Only through a strong Federal commitment to education through some of the actions I have outlined here will we be able to reverse this upward trend in student debt.

I thank you, Mr. Chairman, and the members of the committee, for the opportunity to share my views.

The CHAIRMAN. Thank you all for very excellent statements.

[The prepared statement of Mr. Hannegan follows:]

PREPARED STATEMENT OF BRYAN J. HANNEGAN

Introduction

Mr. Chairman and Members of the Committee: My name is Bryan Hannegan, President of the National Association of Graduate-Professional Students (NAGPS). NAGPS is the primary voice for the Nation's 2 million-plus graduate and professional students through our member graduate and professional student associations in all fifty states. I want to thank the Chairman and Senator Kennedy for the invitation to address you today on important issues related to student debt and Federal support of graduate and professional education. The Members of this Committee have been consistent supporters of graduate and professional education, and I thank all of you for your continued support as we move through the Appropriations process and into Reauthorization of the Higher Education Act at the end of the year.

I am in the fourth year of a Ph.D. program in Earth System Science at the University of California at Irvine, studying formation and transport of aerosols and their effects on climate, and have worked as a both a Teaching Assistant and a Research Assistant in addition to taking out student loans as a means of paying my way through graduate school. My student loan debt currently stands at a modest \$15,000, which is not much compared to debts held by many of my colleagues. Upon graduation next year, however, I'll be lucky to find an entry-level teaching position with a salary greater than \$30,000 per year, and when one includes my student loan payments of \$200 per month to the costs of renting an apartment, owning a car, and placing food on my table, it becomes readily apparent that my days of "simple living" will not immediately end once I receive my Ph.D. degree.

My story is a mild one compared to the stories I've heard from my fellow graduate students over the past few weeks as I've been preparing my comments for you today. Some of our best and brightest students are turning away from the fields they love to pursue a more lucrative career in another field. Others are delaying the start of families, the purchase of homes, and the saving needed to defray educational costs for their children, all because of the massive student loan debts they themselves have accumulated some of the more compelling stories I've heard include:

- Rose is a doctoral candidate in Adult Literacy Education at Penn State University, who funded her entire first year of graduate school on a \$21,000 Stafford Loan. She writes: "I am really committed to this program and my career, but I really wonder how I will pay my loan back!"

- Shelley returned to school as an adult to get a graduate degree in Library Science. She now works as a librarian in a small rural Maine community making \$19,500 per year with no benefits. She has \$38,000 in student loans and will be in repayment for the next twenty years, finally paying her loans off at age 64.

- Ann and her husband are both graduate students at Michigan Tech, with approximately \$20,000 currently in student loans between them and virtually no savings. By the time Ann and her husband have paid off their student loans, she writes, their son will be ready to enter college and Ann fears that she will have to take out more student loans for her son because of their inability to save given their student loan payments.

- Deana and her husband owe a combined \$45,000 in student loans as graduate students working in Creative Writing at San Francisco State University and History at UC Berkeley. Deana writes: "I was horrified recently when I tallied all of our loans and how much we owe, because we would like to start a family when I finish my program but don't see how it will be financially possible." She goes on to write that "instead of buying a house and having a child, I'll be the main breadwinner of the family working to pay off loans we should never have had to take out in the first place."

As an attachment to my written testimony, I've included many of the stories I received from my colleagues around the country, and I provide them to you in the hope that you'll take the time to read them and see the personal side of this tremendous debt problem we students now face.

Helping Students Manage Excessive Loan Debt

These examples are representative of a much larger student debt problem that requires our immediate national attention. A 1996 report titled "Graduating Into Debt", released by the Education Resources Institute and the Institute for Higher Education Policy described an alarming increase in graduate and professional student debt. Between 1993 and 1995, graduate and professional student borrowing increased by \$3.3 billion to a total loan volume of \$7.7 billion, an increase of 74 percent in just two years! In 1995, over 1 million graduate and professional students used a student loan to pay for their cost of education, an increase from 620,000 student borrowers in 1993. Graduate and professional students make up only 19 per-

cent of all student borrowers, yet they borrow 28 percent of all loan dollars, and loans given to graduate and professional students average over \$3,000 per year greater than those provided to undergraduate borrowers.

To assist students in managing their large debt loads, and to prevent future graduates from amassing such large total debts, we recommend that the Committee consider a number of measures that will, we believe, reduce the overall costs of obtaining and paying off a student loan, thereby alleviating the need for increased student loan dollars:

1. **Preserve the Interest Exemption on Graduate/Professional Student Loans**—By reducing the amount of loan balance subject to interest accrual while still enrolled, this interest exemption saves students billions of dollars in loan debt upon graduation. Without this exemption, average monthly payments on student loans would skyrocket, limiting career choices and perhaps dissuading students from enrolling in advanced degree programs.

2. **Allow a Greater Proportion of Subsidized Student Loans**—By increasing the amount of subsidized loan dollars a student can obtain on an annual basis, from \$8,500 to \$10,500, total interest charges on the loan are reduced, and students can begin to repay principal on the loan sooner after graduation, thus reducing the likelihood of default, and diminishing the student's debt load. Similarly, the total aggregate amount available to students as subsidized loans should be increased by \$14,000. This would represent an increase from the current subsidized limit of \$65,500 to a new limit of \$79,500, an increase of \$2,000 per year for 7 years, the normative time to degree for a student seeking an academic Ph.D. degree.

3. **Reduce the Student Loan Interest Rate**—By tying student loan interest rates to the 30-Year T-Bill, student loan interest rates are projected to decline to a rate of 5 percent or 5.5 percent. Over the life of the student loan, any reduction in the interest rate results in substantial savings to the student borrower.

4. **Establish a Loan Repayment Assistance Program**—For students engaged in particular programs who pursue public interest and public service careers, a loan repayment assistance program can be created to pay part or all of a student's loan burden, based on their ability to pay relative to their comparatively low salary. Either a national program could be created, or federal funds could match state funds used to create and sustain state repayment programs.

5. **Reduce or Eliminate Origination Fees**—Origination fees do not help students pay for educational costs, yet students pay interest on these fees for the life of the loan. Even a small reduction in the origination fee would save students millions of dollars annually.

6. **Extend the "Grace Period" for Interest on Subsidized Loans**—In today's competitive job market, it is not clear that a student will necessarily find sufficient employment within a short time after graduation to allow them to begin payment on their student loans. We suggest the lengthening of the interest-free "grace period" to one year, which would minimize interest accrual and help reduce the number of student loans which enter default each year.

Each of these initiatives reduce overall costs of taking out a student loan, provide access to higher education for low-income students who might not otherwise attend, reduce reliance on student loan dollars to pay for educational costs, and ultimately provide for a smaller debt burden on the nation's graduates. Without large student loan debts, students would be more likely to save for starting a family, buying a home or a car, or investing in or starting up a business in their community.

I want to make a final comment about loan limits. There has been some discussion within the various higher education associations about whether we should raise limits on the amount a student can borrow from the various student loan programs. We believe an increase in the overall limit on student loan dollars is an unwise move if the goal is to minimize student loan indebtedness. While some high cost programs may warrant exceptions to the aggregate loan limit cap of \$138,000, we fear that, without an appropriate limit on student loan amounts, total loan volume will continue to increase dramatically to unmanageable levels which seriously impact a new graduate's career choices, and economic stability.

Fellowships, Scholarships and Grants: The Answer to Debt!

However, our national student debt crisis couldn't be as alarming if we were able to provide additional grants, scholarships and fellowships to assist students in meeting the rising costs of attending college. Grant programs serve an important function: they minimize the debt that a student incurs while in school, resulting in a smaller debt burden upon graduation. They also provide access to low- and middle-income students who would otherwise turn away from higher education because of the severe loan debts they would incur.

Grants have traditionally formed the backbone of Federal support for higher education in America. In 1975, an average Fell Grant paid for 75 percent of an average-

cost education, whereas today, Pell Grants barely pay for one-third of all college costs. We support the current bipartisan initiative to increase the maximum level of Pell Grants from \$2,700 per student per year to \$3,000 per student per year, and we applaud the recent decision of the House Appropriations L¹oor, HHS and Education Subcommittee to set aside \$500 million in additional Pell Grant funds for independent students subject to authorization. We recognize this as an important first step in restoring the purchasing power of a Pell Grant to at least its former value, and look toward the future when students pursuing advanced degrees will be eligible to receive a Pell Grant. Over 95 percent of federal grant funds go to undergraduate students through the Pell and other grant programs, while graduate students are forced to rely increasingly on student loans to pay their way through school. I would suggest that this Committee can take the lead in addressing the looming problem of student debt by developing Federal grant programs or graduate students who demonstrate financial need.

Another important Federal student aid program is the State Student Incentive Grant Program, or SSIG. This past year, over 25,000 students in the University of California system received state grants partially funded from SSIG. Without the important federal leverage this program provides, we fear that states will not provide funds for grant assistance on their own, and millions of dollars in grant aid will be lost to be replaced (undoubtedly) with student loan dollars. We urge you to oppose the President's proposed elimination of SSIG, and encourage you to consider providing SSIG with funding at the FY 1997 level of \$50 million.

Since 1991, the number of graduate fellowships offered by the Federal Government has declined from over 60 000 to under 10,000. Grants and fellowships targeted in specific academic areas, such as the humanities and social sciences, provide students who would otherwise not pursue their interests in these areas with financial resources where none would otherwise exist. We support continued appropriations to the three Title IX Graduate Fellowship Programs including the Graduate Assistance in Areas of National Need (GAANN) Fellowship program, the Jacob-Javits Graduate Fellowships for students in the arts, social sciences and humanities, and the Patricia Roberts Harris Graduate Fellowships for women and under-represented minorities. Increased appropriations for these programs are absolutely necessary to support existing and new Fellows in their pursuit of advanced degrees. While all are agreed that some form of reorganization and consolidation of these three programs is long overdue, we claim that the appropriate place to consider such changes is in Reauthorization of the Higher Education Act, not in Appropriations. While not part of Title IV proper, these three programs provide sorely needed aid in specific disciplines and for specific students for whom little funding is available.

We believe that increased Appropriations to these fellowship and grant programs provide the most direct and obvious way of limiting student loan indebtedness for graduate students.

The Rationale for a Federal Role In Graduate Education

In summary, it is clear that there is a definite national interest in maintaining the quality and vigor of our Nation's graduate education enterprise. We graduate students as the teachers of tomorrow's students, the scientists who advance technology and our understanding of the world around us, and the scholars responsible for the discovery and dissemination of new knowledge. We are the entrepreneurs who develop new products that fuel economic growth, the thinkers who continue the difficult and arduous process of understanding our own humanity and history, and we are the source of more than 50 percent of our national basic research. By investing in the education of graduate and professional students, we as a nation develop new strengths and enhance existing ones to preserve our place as a world leader.

It's clear that our nation's graduate and professional students are saddled with an enormous amount of student debt, debt which prevents us from working in careers which are societal important rather than financially lucrative. Only through a strong Federal commitment to education will we be able to reverse the upward trend in student debt, through consistent and ample Appropriations and Reauthorization of programs that work to reduce costs on students. I thank you, Mr. Chairman, and the members of the committee for this opportunity to share the views of the graduate and professional student across the country on the value of Federal student aid programs, and the potential disaster that awaits our Nation if we fail to invest in education.

THE CHAIRMAN. Senator Allard is here now, which is very convenient. Please come forward and pull up a chair, Senator. Please proceed. I will try to get over to the floor and vote, but we can hear your statement first.

Senator ALLARD. Well, I have voted, Mr. Chairman, and I will withhold my statement until you return, if that would help.

The CHAIRMAN. Well, I think that that is probably better, since you might see me darting out of here in the middle of your statement, and that would not be very appropriate. So if you do not mind, I will do that.

Senator ALLARD. That is fine.

The CHAIRMAN. Thank you. I will be right back.

[Recess.]

The CHAIRMAN. Senator Allard, please proceed.

STATEMENT OF HON. WAYNE ALLARD, A U.S. SENATOR FROM THE STATE OF COLORADO

Senator ALLARD. Mr. Chairman, thank you very much for accommodating me, and thank you also for allowing the hearing on a particular piece of legislation that I have introduced, S. 1036, The Young Americans Bank.

I would like first of all to explain to you a little bit about the Young Americans Education Foundation. The purpose of the foundation is education, particularly along the lines of free enterprise and the skills that it takes to survive as an American citizen in a free enterprise system.

The Young Americans Foundation is a nonprofit, 501(c)(3), and it is broken down into two areas. One is the Young Americans Bank, which is a State-chartered bank, and the only people who use that bank, the only people who go in there and borrow money, the only people who go in there and open checking accounts and savings account, are people who are under 22 years of age. And it is a rather heart-warming experience to walk in there. This is a bank in downtown Denver, and we have young people who come in there who come from the poverty areas of Denver, and we have some who come from more affluent areas of Denver, but it is actually located in the downtown areas, so it is accessible to the lower-income side.

In addition to this function in the Bank, there is upstairs the educational part of it; working with 19 school districts, they work with the students and teachers in putting together the curriculum. Then they ring the students in, and they actually have small businesses. Maybe one of them is a telephone business, another one may be delivery, another one may be making paper copies or printing. These students run these businesses as if they were their own, using artificial money and using their own bookkeeping. So they are trained in the class, and they come through and apply it.

A very important part of that educational process is learning how to use our financial system, which comes down through the bank side. That is opening a checking account, having a savings account, and what you do to apply for a loan. Many times, young people think they want a loan for some purpose, and when they come into the bank and ask for a loan, the emphasis is to try to train them through the thought process of do you really need that loan; is this something you need today, or is it something that you can save for and buy 2 or 3 years later and not have to pay the cost of interest, because it is not something that you have to have right now. So it helps people to set priorities.

The reason for this particular piece of legislation is that a natural extension of what the bank does is student loans, and it is very unique in the United States, and I hope that we get more banks and more educational foundations doing this. But it is very unique in that it is a nonprofit organization; it applies just to clientele up to 22 years of age, and its total assets are about \$10 million.

The provisions in the bill make those very specific provisions that it has to be nonprofit, it services young Americans under 22 years of age, and it cannot give more than \$10 million in student loans.

The problem the bank has had in servicing students and their student loan needs is that there is a requirement in Federal law of what they call the 50-50 rule. You cannot loan more than 50 percent of your loan portfolio in student loans. This particular bill would allow for this bank or a similar bank that might be set up to do those student loans.

First of all, let me say the bank does not make money; it loses money. So it is subsidized by the foundation, it is subsidized by the local community. It has the support of the Mayor of Denver, the support of the banking community in the State of Colorado, and a lot of philanthropic organizations within the community.

The reason for this particular legislation is to allow for it to get more engaged in the student loans, because you have an actual need that they need to meet with their students, that helps them further their educational purpose.

Now, I have some comments that I would like to submit for the record.

The CHAIRMAN. Certainly, you may do that.

Senator ALLARD. And I just want to visit with you about what we are trying to accomplish and what we are doing and then answer any questions or any comments that the committee may have.

[The prepared statement of Senator Allard follows:]

PREPARED STATEMENT OF SENATOR ALLARD

Mr. Chairman: I have recently introduced legislation amending the Higher Education Act to revise the proportion of student loans that a kid's bank can maintain in relation to their total consumer portfolio. This bill will allow the Young Americans Bank to continue providing a unique opportunity for young people to learn to control a checking account, save for the future, and manage credit obligations. The bank has had resounding success in teaching young clients financial responsibility and the value of savings.

The Young Americans Bank has been operating for ten years as the only bank in the nation that exclusively serves young people under the age of 22. It is a full service, state chartered, federally insured bank with almost 17,000 customers from all 50 States and 11 foreign countries. Another exceptional element of the bank is that its holding company, the Young American Education Foundation, is the only non-profit bank holding company in the country.

While educating our youth on how to make responsible financial decisions, the Young Americans Bank also has a natural demand for student loans. Section 435 of the Higher Education Act prohibits banks from having student loans comprise more than 50 percent of total loans. Clearly this prohibits the Young Americans Bank from accommodating the large percentage of student loans that they would like to provide for their young clients. It is important to note that by allowing the bank to carry a larger student loan portfolio would improve the bank's financial performance, and provide the resources to make more funds available for education.

My legislation would allow very small, non-profit banks to exceed the 50 percent student loan ratio. The exception would apply only to institutions with a total outstanding student loan volume of \$10 million or less, and all loans would have to be made to those age 22 and under.

The Young Americans Bank enjoys broad support, and I have received letters endorsing this legislation from Denver's Mayor Wellington Webb, the Colorado Bankers Association, the Colorado Governor's office and numerous financial institutions and universities. Not only is Senator Ben Nighthorse Campbell an original cosponsor of my bill, but a companion bill is being championed by Congressman Bob Schaffer, with the support of his Colorado colleagues.

The Young Americans Bank does an outstanding job of providing financial and educational opportunities to young people, and I encourage my colleagues to support their mission and encourage such a successful institution.

You have been provided with documents containing more details about Kid's Bank, and I would be happy to answer any questions you may have. Thank you for allowing me to testify today.

[Please note: Due to the cost of printing, the booklet entitled "Young Americans Bank—The future begins here" will be retained in the files of the committee.]

The Kid's Bank Act

Senator Wayne Allard

Background on the Young Americans Bank

- The Young Americans Bank, otherwise known as the Kid's Bank, is a non-profit organization that was founded in 1987. The Kid's Bank is located in Denver, Colorado and is dedicated solely to young people under the age of twenty-two.
- The Young Americans Bank has been operating for ten years as the only bank in the nation that exclusively serves young people.
- It is a full service, state chartered, federally insured bank with almost 17,000 customers from all fifty states and eleven foreign countries. Its holding company, the Young American Education Foundation, is the only non-profit bank holding company in the country.
- The Bank's mission is to educate children on economic activities and responsibility.
- The assets of the Young Americans Bank total \$10 million.

Current obstacles to Kid's Bank loan program

- While educating our youth on how to make responsible financial decisions, the Young Americans Bank also has a natural demand for student loans. Section 435 of the Higher Education Act prohibits banks from having student loans comprise more than fifty percent of total loans. Clearly this prohibits the Young Americans Bank from accommodating the large percentage of student loans that they would like to provide for their young clients.

The Kid's Bank Act

- My amendment to the Reauthorization of the Higher Education Act would rectify the problem for Kid's Bank and would encourage the development of similar small, non-profit programs across the United States.
- The legislation I have introduced amending the Higher Education Act would revise the portion of student loans that a bank can maintain in relation to their total consumer portfolio. This bill will allow the Young

Americans Bank to continue providing a unique opportunity for young people to learn to control a checking account, save for the future, and manage credit obligations. The bank has had resounding success in teaching young clients how to responsibly handle their finances.

- Specifically, my legislation would allow very small, non-profit banks to exceed the 50% student loan ratio. This exception would apply only to institutions with a total outstanding student loan volume of \$10 million or less, and all loans would have to be made to those age 22 and under.
- By allowing the bank to carry a larger student loan portfolio the bank's financial performance would improve and, in turn, Kid's Bank would have the resources to provide more funds for educational programing.

The Young Americans Bank enjoys broad support, and I have received letters endorsing this legislation from Denver's Mayor Wellington Webb, the Colorado Bankers Association, the Colorado Governor's office and numerous financial institutions and universities. Not only is Senator Ben Nighthorse Campbell an original cosponsor of my bill, a companion bill is being championed by Congressman Bob Schaffer, with the support of his Colorado colleagues.

The operation and objectives of the Young Americans Bank should not be limited. This bank does an outstanding job of providing financial and educational opportunities to young people, and I encourage my colleagues to support their mission and encourage the expansion of such a successful institution.

105TH CONGRESS
1ST SESSION

S. 1036

IN THE SENATE OF THE UNITED STATES

Mr. ALLARD introduced the following bill; which was read twice and referred to the Committee on _____

A BILL

To amend section 435(d)(1)(A)(ii) of the Higher Education Act of 1965 with respect to the definition of an eligible lender.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. DEFINITION OF ELIGIBLE LENDER.**

4 Section 435(d)(1)(A)(ii) of the Higher Education Act
5 of 1965 (20 U.S.C. 1085(d)(1)(A)(ii)) is amended—

6 (1) in subclause (I), by striking “or” after
7 “1992,” and

8 (2) by striking the semicolon at the end and in-
9 serting “, or (III) it is a bank that is a wholly owned
10 subsidiary of a nonprofit foundation, the foundation

1 is described in section 501(c)(3) of the Internal Re-
2 venue Code of 1986 and exempt from taxation under
3 section 501(a) of such Code, and the bank makes
4 loans under this part only to undergraduate students
5 who are age 22 or younger and has a portfolio of
6 such loans that is not more than \$10,000,000;”.

BEST COPY AVAILABLE

The CHAIRMAN. Well, thank you very much. It is a fascinating idea, and if there ever were a time when we needed good ideas, it is now, as we look toward how we can make education more affordable.

What happens at age 22?

Senator ALLARD. Well, at the age of 22, they no longer use the bank. Now, if you have a student loan, there is an obligation with a student loan which is beyond the charter of the Bank, but once you hit the age of 22, you go to a regular bank and do business, and you have hopefully learned the skills. With the time they spend advising somebody when they come into the bank—many times, educating the parents, too—by the time you reach the age of 22, you should be on your own and you should have learned your skills and be using a regular banking service.

The CHAIRMAN. I look at this and wonder if it is under our jurisdiction as far as your request?

Senator ALLARD. Well, the bill has been referred to your committee. I do serve on the Banking Committee, and the reason it is here is because of the student loan provision requirement that requires the 50-50 rule. I think that that is the reason why it is before your committee.

The CHAIRMAN. OK. I think we will take a very close look at it. It is an exciting thought, and I will be conversing with you outside the hearing process as well, as we move along. It is one that will certainly get very serious consideration by this committee.

I think that anything we can do to get young people involved in the learning process of how to manage money and at the same time how to manage going to college is certainly a very important step.

Senator ALLARD. Yes, and to teach people to think about the way to save and how to work with a checkbook. I am a small businessman, and it is amazing how many people have not learned the skill of being able to manage their money and save and work with a checking account. So this would give young Americans, before they take on a lot of family responsibilities, I think some very needed skills in our society and something that we should not ignore.

The CHAIRMAN. I have run into similar kinds of programs, but nothing as elaborate and dramatic as the one in Denver. And they are all very helpful, but this one sounds like as good a program as I have heard of.

Senator ALLARD. Well, it is coordinated with educators as well as the business community; and if you are in Denver, let me know, and I would be glad to take you over there and take you through. It is very fascinating.

The CHAIRMAN. I just might do that. Thank you very much.

Senator Warner.

Senator WARNER. Mr. Chairman, I once upon a time had a job as a lawyer at a bank, so I have some modest knowledge of this subject, although I am very rusty. What would concern me is that all of us recognize that our great Nation does go through periods of economic decline, and should one set in and there be a prevailing inability among a significant number of students to carry the costs of their loans, where would this bank look for resources to tide it over?

Senator ALLARD. It is a subsidiary of a nonprofit foundation. The major benefactor of that is Bill Daniels, who is a large cable business in Denver. It is supported through that, and today, it does not make money; it is supported by the services and support from the local community and the city of Denver itself, as well as this nonprofit foundation. It is really not designed to make money in that regard. It is designed with education as its purpose, and it has a very limited mission, which is education.

Its loan portfolio is very conservative, as you might imagine, extremely conservative. The main thing they are trying to teach young people in this bank is that you just do not go out and make a loan; you need to think about saving for what your needs are, and whether or not you are dealing with a situation where you need that loan right away. Many times, people who walk in thinking they need a loan find out that they do not really need the loan. And because the loan portfolio is so small, they run into problems when they talk about the student loan aspect. They find that this is a clientele that they could serve, tie it in with their educational process, and that is the reason for the bill.

Senator WARNER. Thank you.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Wellstone.

Senator WELLSTONE. Senator Allard, thank you for your testimony. I agree with Senator Jeffords, it is a fascinating idea.

You are focusing on the education part that young people—

Senator ALLARD. Under 22 years of age.

Senator WELLSTONE. Right, and in some ways, especially since so many of our students in higher education are not 18 or 19, but 35 and 40, with children, I keep thinking that it applies to older students, because the nontraditional students are almost becoming the majority.

But your focus is in part on education about saving as opposed to just going in for loans—but is this not also a way of providing the financing?

Senator ALLARD. The focus of the Young Americans Foundation, which is the overall foundation underneath that as the subsidiary, which is the bank, and another one is this educational function, which works with some 19 school districts. The function is to educate young people on the free enterprise system. A very important part of how you function in this free enterprise system is your relationship with banking and how you handle your money. Savings has got to be a part of that, how you handle a checkbook. If you walk into the bank and look at the people who are lined up at the tellers, many of them are 13-, 14- and 15-year-olds; they are just beginning to appreciate money and what you can do with money, and so they have checking accounts, and in some cases, they take out loans if they have a need for various purposes. The bank goes through it with them and often talks them out of the loans, saying, look, you would be better off to set up a savings account and save for what you need.

So the whole function is really education and to educate them about the free enterprise and what a bank's role is in that free enterprise system.

Now, the other part of this foundation besides the bank is a strictly educational function, where they work with teachers in some 19 school districts in Colorado, where they are instructed in the class on the principles of free enterprise, and then, when they move into this other area, when they go upstairs in the bank, the students are given an enterprise of some kind. Maybe it is deliveries, maybe it is printing, maybe it is telephone service. And they run these businesses, and they interact with one another, just like what happens in any small town in the United States, any community, and they learn these skills that they have learned in the classroom by applying them. It is rather unique, and if you are ever in Denver, I would like to have an opportunity to take you up there.

Senator WELLSTONE. But a lot of the loan portfolio is student loans, too; is that correct? That is the thing I am a little confused about, and I apologize; I am just trying to get clear about it.

Senator ALLARD. That is all right. It is a \$10 million bank. It is a very small bank. That is their total. And what the bill asks is that they be allowed to give up to a maximum of \$10 million, which is still very small, in student loans and that they be forgiven on what they call the 50-50 rule.

Senator WELLSTONE. In that more than 50 percent be student loans?

Senator ALLARD. That is correct. And the promoters of this feel that it is a natural, while they have the students there, for them to think about their needs of higher education and to think about how they are going to take care of those higher education needs; it is a natural to take up that clientele and get them into the student loan program.

Senator WELLSTONE. Thank you.

The CHAIRMAN. Senator Reed?

Senator REED. Thank you, Mr. Chairman.

First of all, let me commend Senator Allard for the legislation. Are there any other examples, Senator, across the country of banks like this?

Senator ALLARD. This is the first, and I think it would be nice to see this concept spread out, because I think it is training that is really needed in our society, and I would hope that maybe other education foundations would pick up the educational effort that is going on.

Senator REED. Following on a line that the chairman suggested, this is a constraint that is built into the Higher Education Act, but I would assume that the Federal Deposit Insurance Corporation would have concentration rules that might be even more stringent than the Higher Education Act provision.

Senator ALLARD. Well, the only problem with what we are trying to do is just in that one provision, the 50-50 rule, and the language of the bill is very, very narrow to apply to this.

We went to the banking community in Colorado because we did not want to create a loophole that would allow for unfair competition. So we have worked very closely with the bankers in Denver and in Colorado. It is a State-chartered bank, and I believe that we have drafted this legislation so that we do not create any problems

for the banking community and that we can stay focused on the educational needs.

What we did not want to do was to create a loophole that would allow somebody to come in and create a problem with other banks as far as competition. We wanted this to focus on educational needs, and this is one area where they thought there was a need to help out the students. The local banking community is supportive of this bill, and we have a letter from the Colorado Banking Association in support of it.

The CHAIRMAN. Thank you very much, Senator. We deeply appreciate your testimony and look forward to working with you.

Senator ALLARD. Thank you. I look forward to working with you, too, and thank you for your consideration.

The CHAIRMAN. Now, if the second panel would please return to the table. For the information of other members, they have already made their opening statements, so we are now in the process of questioning.

I want to again thank you for your testimony. This is the reauthorization, as you know, of the Higher Education Act, and it is extremely important, that we not rush through it. But the crisis is upon us, and it is getting worse.

Just to share a couple of thoughts with you, as I have traveled around the country with hearings and so on, the situation gets more and more confused with the addition of nontraditional students. We have run into individuals who perceive that they will not only be paying off their loans but will be helping to make payments on their children's and grandchildren's loans by the time they are finished. And, having two children myself, both of whom went to graduate school, I made the best deal I could. I said I would pay for their undergraduate degree and they would pay for their graduate education—and what a deal that turned out to be.

But I will tell you we are all going to be paying loans off—I will still be paying their undergraduate loans off into the future, while they will still be paying their own and their children's loans off. So there is the question of how we will handle this situation which is growing in magnitude.

But to emphasize what I think is the more important aspect of it, Mr. Stewart, in your testimony, you indicate that there is a 30 percent gap in higher education participant rates between higher- and lower-income students. What specific strategies do you recommend to reduce this gap?

Mr. STEWART. Well, I think a strategy that combines increased grant support as opposed to loan support for low-income students would be very helpful. We applaud the additional \$300 applied to Pell, bringing the maximum to \$3,000. This will help. I think an increase close to the \$5,000 recommendation, which I believe is in a piece of legislation recommended by Senator Wellstone, would increase the chance of closing that gap. Along with the financial aid that is, we would hope, more in the form of a grant than loans, we would hope to see better opportunities for low-income students to improve the quality of their education, their preparation. And I would think that many of the TRIO programs that are also part of the Higher Education Act, if well-funded, would be particularly helpful to low-income students as well. I think the combination of

improved opportunities for better academic preparation and increased Pell Grant support would be very a very significant contributor to closing the gap.

The CHAIRMAN. Have any studies been done on the problem that bothers me the most, which is that something like three-fourths of low-income students who start school, drop out. As to why is that the case, how much of the problem is financing and what other factors there are? That is the first part of the question.

The second comment I have is if we try to change primarily to a grant situation under the present fiscal situation we have, that is a staggering thought from the perspective of trying to live within the budget parameters.

Mr. STEWART. I will address the first part of your question very briefly and second the fiscal issue. We certainly know that it is a combination of poor academic preparation that contributes to the dropout rate, and support for remediation and so on would be terribly helpful. But we would like to see a greater focus on helping students as they leave high school to be better prepared for college-level work.

But the financial aid disparity is a major contributor, and we know that income is a greater determinant of both academic performance—family background—and when the opportunity to go to college is complicated by the lack of financial support, I think we have a formula for the kind of overall academic failure for low-income students that is so prevalent in this country.

As for the Nation's fiscal situation—and we are certainly supportive and sympathetic to the balanced budget constraints that we would want to have—we feel that the investment in higher education for low-income students would be a very good and prudent investment, if you will, to improve the future earnings of these people, who are all too often, as you said in your opening statement, Senator Jeffords, unable to garner the fruits of a college education and therefore become more productive members of our society. We think it is a good investment.

The CHAIRMAN. Well, your first point, that preparation in the K through 12 programs is inadequate, is related more to low-income students than the average student, or not?

Mr. STEWART. We think that low-income students coming from poverty areas and poor schools suffer disproportionately from poor academic preparation. We have a great deal of evidence to demonstrate that.

The CHAIRMAN. Well, then, are you saying that what we should have is some sort of pre-college remedial help for those students built into our system?

Mr. STEWART. Well, I think we need a total system with the kinds of bridge programs that TRIO makes possible, to help with early preparation and improvement in that preparation and overall improvement of their schooling. But we simultaneously need the kind of help financially for these students, who are often, by the way, older students when they are coming into again, often, community colleges, to enable them to do what needs to be done in a remedial sense and simultaneously prepare to work with higher education.

The CHAIRMAN. I realize that these are rather broad conclusions, but are they a result of attempting to locate students who have dropped out and inquire of them at least as to why they dropped out, or is this just a feeling?

Mr. STEWART. No; it is more than a feeling. We at the College Board have invested a great deal of effort, with the help of foundations, in a program called Equity 2000, which enables us to work with a number of school districts that are trying to improve the quality of preparation for college-level work through efforts to de-track. Our program is related to something very simple, which is getting all students to take algebra and geometry in high school, and that enables them to take a full academic course for preparation for college or for work.

It is a fact in this country that with the underrepresentation of poor, often minority, students, there is a direct relationship to their high school preparation. They just do not have it, and then they do not have the funds to go into college to do the work of higher education, either. It is a very complex situation which the Higher Education Act, I think, particularly with its emphasis with Pell and with its TRIO programs, will help to ameliorate.

The CHAIRMAN. Do other members of the panel wish to comment?

Mr. HARRELL. Yes, Senator, I would like to share some comments along the lines of Mr. Stewart with regard to the issue of the \$5,000 Pell maximum award that we are suggesting along those same lines. While we at NASFAA certainly do understand the fiscal issues that are facing the country right now, we also see that as an investment in those young people. And as I indicate in my statement, we certainly support and applaud the Congress and administration's efforts to do some things that relate to tax cuts in an education way for many of the middle-income families within our country. We think it is also appropriate that the other piece of that simultaneously be a commitment on our part to do something as well for those individuals who are at the low end, so that they also will be able to reap some of the benefits of a quality post-secondary experience. We in no way want to suggest that it is not—it is certainly not an easy situation, and it is one that is going to be difficult as we move forward. But we also see that as an investment that we believe will pay off with results in the long-term and that many of those young people are individuals who also end up currently with student loan situations which, because of the kinds of economic situations they bring to the higher education, it does put them at a higher risk of perhaps defaulting on those loans as they move through the process.

So that while there are certainly some cost issues on the front end, we see it as a long-term investment that will pay off for the country, because many of those individuals, hopefully, will not have the type of loan indebtedness that we have talked about or that my colleague here has talked about as well, particularly for those who want to go on and try to pursue a graduate education.

The CHAIRMAN. Mr. Hannegan.

Mr. HANNEGAN. It is important for the committee to know that student debt is very cumulative in the sense that it continues over; that most graduate students do not start from a zero point when they enter graduate school. Most of them come in with significant

amounts of student debt already. So anything that you can do to eliminate or reduce that baseline helps the total indebtedness for those who go on to graduate school.

Most of the students who go into graduate school are by definition in dependent and by definition low-income, because most of them have long since received any form of parental assistance that they are going to get. Many of them are subsisting on either their assistantship or whatever part-time opportunities they can make available to themselves outside their regular work.

So that when we talk about low-income students, we are not always focusing on undergraduates; most graduate students are by definition low-income, and anything that you can do to provide support to them as well would be well-received.

Again, as I mentioned in my comments, I think that some form of a grant program needs to be there for graduate education, if only to encourage low-income students to go on and pursue advanced degrees, because they are severely underrepresented in graduate education around the Nation.

The CHAIRMAN. Senator Wellstone?

Senator WELLSTONE. I am just going to ask one question and have each of you respond, because I could just go on and on; I feel so close to the issues that we are discussing. But I would really like to commend the chair because you have brought in some people who are still raising questions about what is the most desirable policy. I think that sometimes, we focus so much on feasibility—that is to say, this is all that, politically, we can do, end of quote—and ultimately, I guess you do get to that point. But on the other hand, the first question that probably should always be asked is what is the best thing to do.

I want to say to you, Joel, that as somebody who went through graduate school, I am very sympathetic. The only difference is that I think I had it made in the shade compared to what graduate students are dealing with now. I had the grants, and I had two small children and did not have the money myself, but I was able to do it, and so much of that is not there now. We get into this vicious zero-sum game where it is graduate students versus undergraduates, and graduate school education somehow is icing on the cake and is no longer really part of education, or we get into middle-income versus low-income, which really gets me to my point, which is that I thank you, Mr. Stewart, for mentioning S. 212.

I still believe, and I am going to continue to say this, that the Pell Grant, which costs no more over the 5-year period than the deductions and the Hope scholarship, is by far the most efficient and effective way of getting assistance to students. I mean, the crazy thing is—and you know this, Mr. Chairman, and you have said it, so it is not aimed at you—that we are spending the money anyway. It is like treating the people in this country as if they have no intelligence. We argue that we cannot politically find the money, but we are finding the money. We are just doing it through the tax system; but anything we do through the tax system, through deductions and credits, has got to be made up somewhere else.

So we spend the money one way or the other, but what is driving me to distraction is that the two areas where we could do the best job—and they happen to be our role—is not K through 12, but pre-

K. And we know this from other testimony that we have had, but we are locked into a straitjacket. We have no resources to invest, and yet we know that this is key.

The TRIO program is great. I think it is a heart-and-soul program, and I could not agree more. But I believe that we need to start by ensuring that every kid comes to kindergarten ready to learn, and then, on the higher ed part—and this is what I would like to get your reactions to—I honestly and truthfully believe that above and beyond—above and beyond the fact that some kids by age 3 may never really be ready for school or for life because of our neglect—and apparently, that is what the medical evidence is now suggesting to us—there is the other issue of being able to afford college. And we have had a flat 8 percent graduation rate since the late seventies for students coming from families with incomes under \$20,000 a year. And a lot of that is just the straight affordability issue.

Now, the deductions and the tax credit, which is not refundable, will not help those students. Am I wrong about that? You can certainly tell me I am. But I almost always speak at the graduation services of the community colleges. I love to go there because every one of those graduations that I have been to in Minnesota—and I say this to both of my colleagues—at some point during the graduation ceremony, someone will yell out, "Way to go, Grandma" as grandma comes up to get her diploma. I love it. It just gives me goose bumps, you know; I just love it.

But also, when I talk to financial aid people and presidents and students, they are not going to be helped by this. I am being critical of the Democrats. I mean, the administration has been hyping this.

Are the students with income under \$25,000 a year, whether they are graduate or undergraduate, going to be helped by what we have now, or not?

Mr. STEWART. They are not. Unfortunately, they do fall below an income level where they will benefit, with the absence of refundability, from the Hope program. And we the College Board are trying to focus on that lower quartile, if you will.

I would like to make one other statement, Senators, if I may. Our country is engaged in a great national debate about standards, about improving standards, content standards, performance standards; all students must learn to higher standards, and we are pushing through our States these very important efforts, which we certainly support. And as an assessment organization, the College Board is involved in much of this.

But our great fear is that pushing standards, particularly for low-income students, is raising expectations that will be dashed when getting through high school and to college, which they cannot afford. To push higher performance and to hold out the expectation for a better life in this country when poor students will not be able to go to college because of the absence of financial aid, I think is a national problem that we ought to address.

Senator WELLSTONE. Mr. Stewart, if I could just interrupt for a second?

Mr. STEWART. Yes. Thank you.

Senator WELLSTONE. Mr. Chairman, I promise to just take 20 seconds, and I apologize to both of my colleague.

The CHAIRMAN. Please go right ahead.

Senator WELLSTONE. I also think that beyond that question—and you do not have to agree with me—the other thing is that we are setting a lot of students up for failure.

Mr. STEWART. We are.

Senator WELLSTONE. If we do not do anything to change the concerns and circumstances of their lives, including schools and teachers and facilities and all the rest, we already know which kids are going to fail. If you change nothing else and just have the standards, we already know which kids are going to fail.

Mr. STEWART. You got it—excuse me—sir. [Laughter.]

Senator WELLSTONE. I am sorry. That is it. I will not interrupt anybody else.

Mr. HARRELL. Senator, we also share the views of Mr. Stewart with regard to whether or not the tax credits are going to help those particular students below that level, and it is also our view at NASFAA that they will not.

Now, as I said in my statement here, certainly, we in no way want to suggest that those families do not need help or should not receive help with financing, postsecondary experiences for their students; but as we have said in our statement, we also think that if in fact we are going to make that type of commitment to those individuals, we also have a moral responsibility to make a commitment to those young people and families who are at the lower end and who, based on all of our information, indicate that that legislation will not help them.

So I agree and certainly support your concerns and comments along those lines, that no, it is not going to help those students.

Now, while we are on that issue of the educational tax credit programs, let me express if I might, Mr. Chairman and Senator, another concern that we have in the student aid community, and that is with the administration of that program. We are currently looking at and trying to analyze exactly how that program is going to be administered within Treasury, and we do see some real concerns and challenges that are going to lie within institutions as relates to the administration, at least, of that actual tax credit program. We would like to suggest—and I know the Senator is a member of the Finance Committee—that they seriously look at those issues and, if at all possible, provide the maximum flexibility within statute and allow room within the regulatory process for Treasury to work with institutions so that if in fact we move in that direction, institutions do have flexibility in administering that. And we are looking at that at NASFAA in some serious ways and will be happy to share additional information as to the consequences and implications that will be brought on from just the administrative burdens that will be associated with that.

Mr. HANNEGAN. Senator, as I understand it, the most likely form of the tax bill that will come forth will not even be available to graduate students, so the deductibility issue for graduate students is not even an issue, for that matter.

If you look back at some of the other incarnations of the bill, we have been under fire for the money that we do make as teaching

and research assistants through section 117(d). Things like the permanent extension of section 127, which includes graduate students, are much more valuable for low-income students who go through their undergraduate years, have to go into the workforce for an employer simply to make ends meet for their families, whether it is their parents or the family that they themselves support. If you can make that section of the Tax Code available to graduate students on a permanent basis, that would allow people to enter the workforce but still go back and get that graduate degree later on, even if it is course-by-course over a number of years.

So that when we look at tax credits, there are a number of things that can be done to really help graduate students that really are not being done right now. And the deductibility issue would be great if graduate students were even available for that.

The CHAIRMAN. Senator Reed.

Senator REED. Thank you, Mr. Chairman, and thank you, gentlemen, for your testimony. I want to associate myself with many of Senator Wellstone's remarks. We are both trying to increase Pell Grant funding which I think would be a major step forward in our efforts to provide opportunities for all of our citizens.

The changing contours of financial aid have forced many difficult choices on students and parents, and I wonder if you might be able to give us a sense of those choices—how many students now will not go to college; how many will go to a community college versus a 4-year undergraduate program; and how many students in college will drop out because of the problems. If you can give us a sense of that, I think it might help to personalize what we have been talking about in terms of aid programs, Title IV, Pell Grants, and direct loans.

Mr. STEWART. In our chart, Exhibit C, Senator, we indicate what college participation rates by family income quartiles would be, and you can see—if you can; it is a little far away—

Senator REED. It looks like a target at about 200 meters to me. [Laughter.]

Mr. STEWART [continuing]. There is a very high correlation between income levels and participation rates. The higher you go up the scale, you see, the higher the participation rate, with families below an income of \$22,000 being at the very bottom, with 40-some percent participation rate, and for families with income levels above \$67,000, 80 percent are able to go to college.

But I am not going to say that middle-income families, too, do not suffer, do not have problems. As I argued in my written testimony, higher education in America is affordable for all families at one kind of institution or another. Great attention is given to the over-\$20,000-a-year institutions, but not everyone is going to Harvard, and that is where the publicity and the media are usually focused.

I think many poor families are faced with the choice of not going at all. They just cannot afford it; or, children of poor families take on unrealistic work burdens to try to work and study simultaneously in a way that undermines their academic achievement.

I see various patterns, though, and Senator Wellstone is no longer with us, but many families will postpone the education of

their children, certainly at the graduate level, so you will see this increasing trend of older students who have had to work and study.

But higher education—and Dr. Ikenberry is here from ACE, and I am sure he will say something about this—offers multiple opportunities through our various sectors and subsectors for all students. But the choices are getting very tough, and I think we are going to see much more part-time study and some of the other things I have already alluded to. I do not want to speak too long.

Senator REED. Doctor, please.

Mr. HARRELL. Yes, Senator. Let me speak now not necessarily in my role as a representative of NASFAA here, but as a practicing student aid administrator who talks on a day-to-day basis with students and parents. My institution, the University of Tennessee, Chattanooga, is a metropolitan university that has a significantly large number of nontraditional-type students as well as traditional students who are trying to balance, as Mr. Stewart has indicated, that relationship between work and going to school.

So the issue that we are most concerned with, as he was saying, is not necessarily the fact that there are not a lot of choices out there, or that those choices are not good, but that they are trying to find a way to be able to maintain their academic preparedness and at the same time, quite frankly, keep their lights on. That is one of the most difficult situations that I encounter in talking with these people, that yes, they realize the opportunity is there, and they understand that the options are there, but they are faced with the dilemma that if in fact they are not going to be able to receive sufficient support to be able to pursue this opportunity, then they have got to make some choices, and for many of them, unfortunately, it means that that choice becomes one of do I feed children or do I pursue postsecondary education; do I keep shelter or pursue postsecondary education. And quite frankly, obviously, it is not very hard to figure out what that decision ends up being, and it does in fact delay many of them to the point where they do relegate themselves to part-time study and find themselves having to make some very difficult choices, which for them is frustrating, because they understand that not only for them, but for their children as well, that is an important decision that they need to be able to make and make in a positive way.

Senator REED. Doctor, you and several others have been at the university for your entire career—

Mr. HARRELL. That is correct.

Senator REED [continuing]. And this is an accelerating problem that you are seeing?

Mr. HARRELL. It is an accelerating problem, particularly for the nontraditional students who more and more are coming into the workplace—into the educational arena, at least. The economic pressures that they are facing, as costs escalate in other parts of society as well, are exacerbated by the fact that the higher education costs continue to rise, and they have got to make those decisions now in a much more difficult kind of way as opposed to when those cost issues were not as paramount.

Senator REED. Thank you.

Mr. Hannegan, please.

Mr. HANNEGAN. The previous gentlemen make a very good point, and that is that the overall cost that we have to worry about funding as students is not just simply the bill that the university gives us; it is the living cost, it is the cost of putting food on the table.

In my capacity with the Association, I hear a lot of personal stories—and in fact, I have attached quite a few of them to the testimony today—but one is from a doctoral candidate named Rose at Penn State University who works in the area of education, in adult literacy. She says that she funded her entire first year of graduate school on a \$21,000 Stafford loan. And she writes that even though she is really committed to her program and to her career, she wonders how she is going to pay her loan back and in fact is wondering whether another \$21,000 is even feasible.

So that when we talk about instances of folks dropping out or putting things on the back burner, clearly there are a number of stories from graduate students around the Nation that verify that. And my own personal assessment is that these stories are becoming a lot more numerous. In just the past couple of years, we have become very aware that there is this growing problem that we need to find some other answer to other than just raising the loan limits or throwing more loan dollars at students.

Senator REED. Thank you, and just a final point. At a time when we all recognize that postsecondary education is absolutely critical to the country's future and individual progress, it is harder and harder for students to attend postsecondary education, and it is particularly difficult for low-income students and families.

Thank you all, gentlemen.

Thank you, Mr. Chairman.

The CHAIRMAN. I am getting more and more discouraged—I think I am going to throw this panel out. [Laughter.]

Mr. STEWART. There is hope.

The CHAIRMAN. Let me talk about a concept which we are coming to utilize and what impact that has, and that is income-contingency repayment. Obviously, from a total financial look at it, it is a disaster; you end up paying back many, many more times than you would if you paid off your loans on time. But is that an alternative which by necessity is something we should expand, so that instead of a loan repayment of a certain amount coming out of your cash, you have an income tax increase, so that if you are not earning anything, you do not have to pay much.

What are your thoughts on that?

Mr. STEWART. The gentleman from Tennessee is probably better able to address this at a more detailed level. I think that conceptually, it is a good idea as an option. A long-time friend and colleague, Bruce Johnstone, has done a great deal of research and analysis using various models of income-contingency loan repayments.

There are certain disincentives built into the plans that I have seen for action or career choices that would lead to accelerated income returns. But I think that on balance, if there are built-in contingencies to the income-contingency loan, to leave it to repay a loan and gets completion without penalty—the kinds of things we do with more home mortgages and so on—that on balance, it is a good idea, conceptually.

I think that in Minnesota, there was a pilot that was used to test this idea, and it seemed to work rather well in increasing participation rates in higher education and creating affordable alternatives for repayment of the loans and enabling students to make choices with regard to professions that were low-paying professions. We want more of our students to go into teaching and social work and nursing and so on, who, if carrying very heavy debt burdens, are just not going to do that. That is the disincentive we want to avoid.

Socially, I think that we would be well-served by a form of income-contingency loan program.

Mr. HARRELL. Senator, our view on the income-contingent loan program is that while we agree with the concept in allowing students to have some options in repaying those obligations on a long-term basis, we feel that for some students, yes, that is a viable option, and it is something that should be there for them and that they should have access to.

However, our concern is that many students, when you look at their amortization schedules, end up being lifelong debtors, and they never have the opportunity to fully enjoy the benefits of that postsecondary experience that we provided for them, and they end up in this trap—if you look at some of them, depending on the age of the borrowers, they never get out of that situation.

Mr. STEWART. But if there is built in a clause or an option or whatever to pay off the loan and leave, is that not—

The CHAIRMAN. The option is there; is it always an option. You mean they get locked into it and cannot get out of it. But you can switch to paying it off; that is not precluded under this.

Mr. HARRELL. It is certainly not precluded. One of the other concerns gets to the issue that we have addressed also in our statement, and that is the issue of a level playing field between both loan programs. Currently, as you are aware, that option does not exist in the Federal Family Education Loan program for students. Therefore, while we see this as an option for students to be able to spread those out over a long period of time, we think it would work for students; our concern is that for others, depending, for example, on where they find themselves coming out career-wise—as a colleague here noted, many students end up in particular disciplines, and while certainly, we want our students to be able to have some choices about their careers and what happens to them when they leave our institutions, for many of them, because of those chosen careers, this is simply not going to be a viable option for them because, based on their income levels coming out, even with the extended periods, they are still going to have this particular issue with them throughout the long period, and that is why we are concerned not from the standpoint that it is something that should not be there—it is an option—but as Mr. Stewart has indicated, I think there ought to be some other clauses or issues where the students have some options at certain points to rearrange or redirect—and certainly, some of those do exist, and I do not want to indicate that they do not—

Mr. STEWART. Or to refinance, like a car.

Mr. Harrell [continuing.] Or to refinance, as you suggest, and have an option to go back in. Most of those now lock them into that plan pretty much based on interest rate structures when they get

in, and they do not get the benefit of improvements along the line in terms of the economy itself, and that is the issue that I think we are concerned with to some degree.

Mr. HANNEGAN. I would agree with the previous two speakers with just one comment. I think that for students who go into low-income careers—teaching, public service, and so on—the income-contingent plan obviously is not going to work for them very well because their income is always going to be low; their payments are going to be lower; the life of the loan is going to have to be extended out, and the overall cost of the loan is going to increase.

I think that if we really want to work on trying to encourage people to work in these areas, we need to combine this approach with a loan forgiveness program that allows the loans to be forgiven either directly upon graduation or after some period of time, that would then address this problem, because if we apply income-contingent to somebody who is not making more than \$20,000 a year for the rest of his or her life, it is just simply not going to work.

The CHAIRMAN. OK.

Senator Reed.

Senator REED. Thank you, Mr. Chairman.

The CHAIRMAN. I thank you, and I thank all of you for your participation. We have some very, very serious problems here, as you know, and I would just make another observation that maybe we have to take a look at some of the concepts of virtual universities and these kinds of things which are now at least beginning to be options as to other ways to get a higher education without all the costs involved. So as we look forward, if you have any comments on that—I realize the dramatic shifts that that would cause, but if we have the inability to accommodate especially low-income students, it seems that we have got to look at other options that may be available with all the new educational technology which is available.

Does anyone have any comments there?

[No response.]

The CHAIRMAN. OK. Thank you very much.

Mr. STEWART. The problem is just not enough money.

The CHAIRMAN. I will now call our final panel to the witness table. First, Dr. Stanley Ikenberry recently became president of the American Council on Education. Prior to taking this post, he was president of the University of Illinois.

The next witness will be Dr. Philip R. Day, Jr. Dr. Day has served as president of Daytona Beach Community College since 1990. Previously, he was president of Cape Cod Community College. Welcome, Dr. Day.

Our final witness this morning will be Omer Waddles, who is president of the Career College Association. In his previous life, he was counsel to Senator Kennedy on the Labor Committee. It is nice to see you, Mr. Waddles.

Mr. Ikenberry, please proceed.

STATEMENTS OF STANLEY O. IKENBERRY, PRESIDENT, AMERICAN COUNCIL ON EDUCATION, WASHINGTON, DC; PHILIP R. DAY, JR., PRESIDENT, DAYTONA BEACH COMMUNITY COLLEGE, DAYTONA BEACH, FL; AND OMER E. WADDLES, PRESIDENT, CAREER COLLEGE ASSOCIATION, WASHINGTON, DC

Mr. IKENBERRY. Thank you very much, Mr. Chairman. I am Stan Ikenberry, president of the American Council on Education, and am pleased to have the opportunity to be here, and benefited very much from the testimony of the earlier panel and the questions of the committee.

I really want to briefly comment on two issues, with my testimony particularly focusing on the question of access, particularly the relationship of concerns for access to the reauthorization of Higher Education Act. But also, my written testimony, Mr. Chairman, will focus primarily on the college cost issue, which is directly related to the access question, and I would be pleased to respond to any questions or concerns that members of the committee may have on either of these points.

Let me turn first, however, to the question of access. This committee will really grapple with no more important question than access as you begin to develop legislation that will establish the framework for higher education policy in this country well into the next century. Forty years have now passed since President Eisenhower and the Congress began to move on these issues four decades ago, and through successive Presidents, President Johnson, President Nixon and many others, and through successive Congresses, a national commitment has really been forced to try to open up educational opportunity in this country to all qualified citizens, and this is the principal bedrock, if you will, of the higher education legislation.

I think all of us in this country, particularly those of you most directly responsible, need to take pride in the progress that has been achieved over the decade. Every year, American colleges and universities open up the doors of opportunity for millions of Americans. The economic impacts and benefits have escalated very considerably. Now, the average income of a college graduate is about 75 percent higher than homes that have only high school graduates.

But higher education also means lower unemployment, lower welfare dependency, less incarceration, a better quality of life generally, and I think we frequently underestimate the magnitude and importance of these other benefits of a college education.

Behind the policy goal of affording access to postsecondary education, however, is the desire to promote the upward mobility and minimize the social and economic stratification. The committee has just had a very extensive discussion of that, and the chart that is no longer up there, even though it was hard to read and interpret, I think well illustrated the magnitude of those problems. But the harsh truth is that we have made progress in opening up opportunities, but the gap is still about as large today as it was 20 years ago, and I think that that needs to continue to be a concern for all of us.

Minority students are particularly less likely to come from academically rich educational environments; they are less likely to

take the college prep programs in high school. Low-income students, as you have discussed, are less likely to take, for example, the college entrance exams. Federal student aid dollars are stretched tighter than was the case a decade ago, and until the last 3 years, the value of the Pell Grant was continuing to decline very significantly in regard to inflation. We have made, I think, in the last 2 or 3 years, some progress in turning that around.

And finally, I think one overlooked factor is that in the last decade, many States in facing their own budget problems reduced support for higher education, and that in turn stimulated an increase in public college and university tuition rates without a corresponding increase in student aid.

So all of these trends, Mr. Chairman, represent the backdrop from which we will look at the reauthorization of the Higher Education Act. I would just like to comment very briefly on a few of our key recommendations on behalf of the higher education community in regard to reauthorization.

Our first priority, I think consistent with much of the earlier discussion, is to continue to strengthen the Pell Grant program as the foundation of Federal student assistance. We strongly recommend that the Pell Grant need analysis calculation be adjusted to redress the harsh effects of the 1992 reauthorization regarding independent students without dependents. In the year this proposal was implemented, as you know, the number of Pell Grant recipients dropped by more than a quarter of a million.

We also recommend an increase for the dependent student earning allowance. The unreasonably low allowance in the current law discourages students from working.

As an important aside, the President requested \$725 million in his 1998 budget request to correct the inequitable treatment of single independent students. We strongly support this request, and the \$528 million reserve that is in this year's House appropriation bill is a down-payment toward that purpose.

We are concerned that the Senate bill does not include these essential funds, and we hope a final bill as it emerges from Congress will be able to address this urgent issue.

We also propose several specific steps, Mr. Chairman, to strengthen the campus-based student aid programs, so that the Pell Grants will help reduce borrowing there as well.

I want to conclude by mentioning our final recommendation, which is to strengthen the Department of Education's Federal student aid delivery system and to streamline that so that it provides better service to students and institutions and borrowers. We think that some dramatic changes moving, if you will, in the direction of the model of a VISA or Master Card approach, to modernize our student aid recordkeeping and processing systems will be of great benefit to students and to others.

I want to thank you again, Mr. Chairman, for the opportunity to appear before the committee and would be pleased to respond to any questions you may have.

The CHAIRMAN. Thank you very much, Dr. Ikenberry.

[The prepared statement of Mr. Ikenberry follows:]

PREPARED STATEMENT OF STANLEY O. IKENBERRY, PRESIDENT, AMERICAN COUNCIL
ON EDUCATION, ON BEHALF OF:

AMERICAN ASSOCIATION OF COMMUNITY COLLEGES, AMERICAN ASSOCIATION OF STATE COLLEGES AND UNIVERSITIES, AMERICAN ASSOCIATION OF UNIVERSITY PROFESSORS, AMERICAN COUNCIL ON EDUCATION, ASSOCIATION OF AMERICAN UNIVERSITIES, ASSOCIATION OF CATHOLIC COLLEGES AND UNIVERSITIES, ASSOCIATION OF COMMUNITY COLLEGE TRUSTEES, ASSOCIATION OF INDEPENDENT COLLEGES OF ART AND DESIGN, ASSOCIATION OF JESUIT COLLEGES AND UNIVERSITIES, COALITION OF CHRISTIAN COLLEGES & UNIVERSITIES, COALITION OF HIGHER EDUCATION ASSISTANCE ORGANIZATIONS, COUNCIL FOR ADVANCEMENT AND SUPPORT OF EDUCATION, COUNCIL OF INDEPENDENT COLLEGES, COUNCIL OF GRADUATE SCHOOLS, HISPANIC ASSOCIATION OF COLLEGES AND UNIVERSITIES, NATIONAL ASSOCIATION FOR COLLEGE ADMISSION COUNSELING, NATIONAL ASSOCIATION FOR EQUAL OPPORTUNITY IN HIGHER EDUCATION, NATIONAL ASSOCIATION OF COLLEGE AND UNIVERSITY BUSINESS OFFICERS, NATIONAL ASSOCIATION OF GRADUATE AND PROFESSIONAL STUDENTS, NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES AND UNIVERSITIES, NATIONAL ASSOCIATION OF STUDENT FINANCIAL AID ADMINISTRATORS, NATIONAL ASSOCIATION OF STUDENT PERSONNEL ADMINISTRATORS, AND NATIONAL ASSOCIATION OF STATE UNIVERSITIES AND LAND-GRANT COLLEGES.

I am Stanley O. Ikenberry, president of the American Council on Education (ACE). ACE is the nation's principal coordinating body for higher education, representing 1,700 two-year and four-year colleges, research universities, and national and regional education associations. Until 1995, I was the president of the University of Illinois, a position I held for the preceding 16 years.

I am delighted to have this opportunity to offer testimony on the cost of attending college on behalf of 23 higher education associations. Together, we represent the 3,700 colleges and universities across the nation that provide the teaching, research, and service essential to our economic and social well-being.

Let me begin by expressing appreciation for the support that Congress has shown for higher education. This country has a remarkable array of colleges and universities that enhance the quality of life for all Americans. On behalf of our nation's colleges and their students, I thank you and the American people for your investment.

Let me also thank you for holding this hearing. The ability to pay for college is an issue of great interest and concern in our society, as is readily apparent from the recent spate of stories in the media. Every college and university president in the country shares this concern and is searching for ways to reduce the rate at which prices rise. I appreciate the chance to meet with you to discuss the pressures that increase college tuition's and to discuss the steps colleges are taking to minimize and control the need for such increases.

All of us are here today because we realize how critical higher education is to America's future—to our economic growth and social progress. Over the century, through our graduates, through the knowledge we produce and share, and through the service we render to the public, higher education has helped build virtually every aspect of our economy, our social institutions, and our community life.

Individuals also have benefited substantially. We all know that income rises as education increases. Data from the Census Bureau shows that those with a bachelor's degree will earn an average of \$12,000 to \$14,000 more per year than a high school graduate, and the difference in earnings for those with a graduate or professional degree is even greater.

But beyond income, individuals with at least some higher education are better off on every single measure of social well-being we can devise. Indeed, while no single social policy is a panacea, if we wanted to inoculate individuals against poverty and long term bouts of unemployment, and reduce crime and social dependency, we would begin by making certain that every person in this day and age has some education beyond high school. In short, now, more than ever before, the most efficient and effective way to increase national and personal well-being is through higher education.

It is precisely for these reasons that we are concerned about the cost of a college education. There is no question that this issue commands our collective energy and attention. Given the importance of higher education to individual and social well-being, we must ensure that no qualified student will be denied the opportunity to acquire a college education because of an inability to pay tuition and other costs.

The range of choices and costs in American higher education is remarkable, ranging from near zero tuition charges to much higher numbers. The media tends to concentrate on the sensational upper extreme. College prices have become a regular

feature of magazines, newspapers, and the nightly news. A lengthy series in the Philadelphia Inquirer and more recent cover stories in Time and Newsweek emphasized the burden that rising prices have placed on families. NBC news recently devoted several stories to the issue.

Most of the time, these stories focus on the highest priced colleges and universities. Unfortunately, because of this concentration the tuition paid by a relatively small number of families at a small number of schools, the vast majority of American families have grown increasingly concerned and confused about the affordability of a college education. Also fanning the flames of public concern about the cost of college are the marketing campaigns developed by the financial services industry. Media and direct marketing campaigns that utilize exaggerated projections of tuition charges 20 years hence are meant to frighten parents into buying the financial planners wares. While these tactics may promote planning and savings, they also shape public attitudes about college affordability in a very negative way.

Those of us in higher education need to do a better job of helping the public understand the true picture in college prices, the vast range of choices and options, and the student aid that is available. For example, in the independent sector, which often is cited for having high tuition, there are nearly as many low-priced institutions, such as Berea College (\$188 annually), Brigham Young University (\$2,450), and Arkansas Baptist College (\$2,000), as there are high-priced institutions. Indeed, more than three times as many independent institutions charge tuition and fees of less than \$8,000 a year as charge more than \$16,000, and many of them offer high quality programs, provide individual attention to students, and have distinctive programs.

The 5.5 million students attending the nation's community colleges face an average tuition bill of \$1,400. Perhaps more surprising is the fact is that in 1996, 56 percent of all full-time college students at four-year institutions—roughly 5 million students attended schools that charged less than \$4,000, and 75 percent went to colleges with tuition of less than \$8,000.

The Congressional Budget Office found that, when student aid is factored in, the average tuition payment in 1996 was estimated to be about \$3,000, and only about one in seven students spent more than \$5,000. For many students, institutionally provided financial aid reduces the actual price of tuition to well below \$3,000. Only 12 percent of college students had tuition bills of more than \$14,000. And at those few high-priced institutions that are the focus of so much media attention, financial aid from their own funds offsets the actual price even more: colleges and universities that charge \$20,000 or more for tuition provide an average of \$12,000 in institutional aid to their financial aid recipients.

Few media stories concentrate on the range of options and few stories focus on the choices most students and families actually make. At the University of Illinois at Urbana, for example, tuition and fees are \$3,150 this year. At Ohio State University, tuition and fees cost \$3,300. Taken together, these two schools alone enrolled 20,000 more undergraduate students than all the universities in the Ivy League combined, but that is not the story one typically hears.

To find out what the public knows about college prices, a number of higher education associations last year sponsored a survey of 1,000 randomly selected adults. They were asked what they thought it cost to attend four different types of colleges and universities. Respondents were instructed to estimate the tuition and required fees only, and to exclude room, board, and other charges. The results are as follows:

	Estimated Price	Actual Tuition + fees*
Public Community College	\$6,295	\$1,194
Public University	\$9,599	\$2,982
Private Liberal Arts College	\$13,824	\$10,698
Private Research University	\$20,410	\$14,510

(*Tuition data is for 1994-95, the most recent figures available from the Department of Education when this survey was conducted in July 1996.)

In short, the public thinks that the average student at a public university faces a tuition bill of \$9,599. In reality, however, Department of Education statistics show that the nationwide average for tuition at a public university is \$2,982—less than a third of the estimated price. Indeed, we later conducted focus groups to identify a "fair" price and discovered that in the case of community colleges and public universities, the actual cost of tuition and fees is actually lower than what the public thinks is a "fair price" for those schools.

The fact that the public significantly overestimates the price at public institutions is not a small consideration, since nearly 80 percent of America's college students attend public institutions. The extent to which the public has gained a false impression about the cost of college, private or public, is a problem, since it is likely to lead to poor and uninformed choices.

This distortion and confusion is compounded by the fact that the public also underestimates the extent to which financial assistance from federal, state, and institutional sources lowers the cost of attending college for many families. Nationwide, 75 percent of full-time students in private colleges get student aid, as do 50 percent of those attending public institutions. At Illinois, for example, the average, actual tuition last year was \$2,880, however, the average dropped to \$1,533 when all grant aid was counted. Nonetheless, numerous studies have reached the same conclusion: the public simply does not recognize the range of options and cost, the amount of assistance that is available, or the significant number of students who receive it.

None of this evidence is designed to camouflage the fact that prices have been increasing, or to minimize the concern this causes families as well as higher education institutions. Actual costs have been going up. Any number of forces exert pressure on college tuition. One factor is that the "goods" colleges tend to purchase are different and tend to be more expensive than the "market basket" of goods purchased by typical households and measured by the CPI, including:

- expanding services for students, including academic and career counseling and services for students with disabilities;
- library acquisitions;
- technology investments, including large investments in installing, upgrading and maintaining computer technology for teaching;
- institutional financial aid for students who qualify for and require assistance—the fastest growing institutional cost;
- expanding and training the campus security force, and installing superior security devices;
- complying with federal regulations;
- maintaining faculty salaries at levels required to attract and keep talented faculty;
- renovating and restoring an aging physical plant; and
- making energy improvements and other investments that in the long term will yield efficiencies and reduce costs, but in the short term cost money.

In terms of the escalating costs that colleges and universities face, every cost pressure tends to be related to the pressure to maintain academic quality and access. Five areas in particular merit discussion:

First, higher education is a labor intensive industry that cannot easily substitute technological innovation for human capital and still maintain the close student-faculty relationship most students and families want and need. America's colleges and universities employ 2.6 million people—more than are employed by the auto, steel, and textile industries combined. Of these employees, 1.1 million are faculty, including teaching and research assistants, and 1.5 million are staff members. Salary pressures that prevail in the private sector have an impact and drive up salary costs in higher education. Institutions work to manage these pressures, but any failure to maintain competitive salaries can be a long term threat to institutional quality.

Second, scientific and technical knowledge is growing exponentially. Colleges and universities are different places than they were 20 years ago. They are the primary vehicles for creating, storing and transmitting scientific knowledge, and must be at the forefront of this revolution. Most scientific disciplines now see an increase in the level of knowledge of 4 to 8 percent a year, with a doubling of knowledge every 12 to 15 years. When I arrived at the University of Illinois, the human genome project had not been conceived, our National Center for Supercomputing was not imagined. In field after field, from agriculture to art to architecture, from computing to information science to medicine, all across both our campuses the knowledge base changed and the university had to change as well—with new people, new facilities, different equipment and programs. When I began my presidency, the Hubble Space telescope was still on the drawing board. Cloning was still the stuff of science fiction. Today, all of this is a reality.

The Internet, access to which was invented at Illinois through MOSAIC, was a concept, not a reality. Scientific and intellectual advances must translate into new teaching and learning and eventually affect the tuition charged at individual colleges and universities. Knowledge does not grow at the rate of the Consumer Price Index, and who among us would wish to live in an era when scientific and technical knowledge and its promise of a better life grew more slowly than it does at present?

Knowledge and technology growth does, however, exert pressure on college costs as institutions strive to keep pace.

Labor-intensive organizations like universities keep up with this vast expansion of information by investing in new people, technology, and facilities—steps that are very costly. Consider the libraries of a major research university. According to the Association of Research Libraries, between 1986 and 1995, such libraries actually bought fewer academic journals, but increased spending for such purchases by more than 100 percent because of the spiraling cost of subscriptions. Over the same period, research libraries spent 22 percent more on books but, thanks to higher unit costs, acquired 23 percent fewer volumes.

As knowledge becomes increasingly dependent on technology, colleges must take steps to keep up. All students must have access to good computers. Libraries, classrooms, laboratories and dormitories must be wired with fiber optic cables.

Third, financing higher education is a partnership between students and families, government at all levels, and higher education institutions. When one partner pulls back, pressure on others intensifies. Tuition in state supported institutions has increased because states have cut spending on higher education to pay for higher expenses in Medicaid and corrections programs. Between 1985 and 1997, the share of state budgets dedicated to higher education fell from 14 percent to 12 percent. During the same period, spending on Medicaid and corrections went from 14 percent of state budgets to 19 percent.

This trend may grow more pronounced in the future as states face additional strain as a result of the ongoing effort to balance the federal budget. In many cases, state legislatures have responded to these pressures by reducing spending on higher education, resulting in tuition increases to make up the difference. Ohio State University, for example, absorbed an \$80 million reduction in state funds between 1991 and 1995. When adjusted for inflation, state appropriations for higher education in Ohio average \$500 less per student than in the early 1980s.

Similarly, state appropriations per enrolled student have dropped by \$230 in real terms in California and by over \$2,000 in New York since 1986. Even in states like Illinois that cut funding during the recession of the early 1990s and have since increased funding, state appropriations per student have barely kept pace with inflation. Nationally, state appropriations per enrolled student have declined by \$440 over the past ten years—a loss of over 10 percent.

In almost every instance, sharp cuts in state support force tuition in those schools up. In most instances, however, tuition increases are only one remedy institutions use to cope. Internal budget cuts, closed programs, reduced services, and other steps follow as well.

State spending on higher education appears to have stabilized in the last two years. There is no telling if this is a short term plateau that results from favorable economic conditions, or a permanent change in state spending priorities. However, given the continuing spending demands for corrections and health care, it is quite possible that the long term trend could continue to be one of decline, placing even more pressure on public college and university tuition. Indeed, one analyst has now concluded that if state support for higher education continues to decline at the rate we have seen in the last two decades, it could begin to hit zero in some states early in the next century. If this projection is even partially correct, public higher education faces a special challenge in keeping tuition at a reasonable level.

A fourth factor contributing to rising college prices is the pressure to increase the student aid provided by colleges and universities themselves. This pressure has grown steadily and dramatically, largely in response to stagnant federal student aid allocations. For example, until corrective actions were taken by the last Congress, the Pell Grant alone suffered a 50 percent decline in real value between 1979 and 1995. In contrast, the amount spent on institutional financial aid by all institutions tripled between 1979 and 1986, rising from \$1 billion to \$3 billion. Since 1986, it has tripled again. In 1995 alone, colleges and universities spent \$10 billion—substantially more than the amount spent on student aid programs by state governments—to help needy students pay college bills.

The money to fund institutional student aid programs often comes from tuition revenue. At nearly every college or university, this revenue is derived from two distinct groups of students: those who are able to afford the full tuition and those who need aid, often substantial aid, to attend. Thus, institutions, particularly independent institutions, alien must increase tuition to keep their doors open to financially needy students.

Data from a 1996 survey conducted by the National Association of College and University Business Officers, paints a revealing picture of the rates of growth in actual tuition versus posted tuition, or "sticker price." A number of factors are clear, including: that the rate of increase in institutional aid far outpaced the rate of in-

crease in tuition; that the average student pays approximately half of the posted tuition price; and that between 1990 and 1996—the years contrasted by the survey—real tuition increases, when adjusted by subtracting institutional aid, were on the order of 3–5 percent per year, or much closer to annual inflation rates.

Fifth, it is an inescapable fact that state and federal regulations increase college prices. Because colleges and universities are large, complex places with such varied operations, virtually everything that government does affects them. The most complex and significant regulations higher education complies with are not in the jurisdiction of this Committee. Indeed, in many cases, the connection between federal law and higher education is not immediately apparent. For example, institutions of higher education are, as an industry, the nation's second largest producers of low-level nuclear wastes. Properly disposing of such wastes is a national imperative, and we are committed to best and safe practices. But complying with the federal EPA regulations poses just as much cost pressure on colleges and universities as it does on the private sector. In the private sector, these costs are passed on to the consumer in the form of increased prices. In the collegiate sector, such cost pressure inevitably will affect tuition.

Compliance burdens can assume many forms, not all of them obvious to legislators or regulators. For example, Duke University estimated that it spent \$8,000 in a single year just to keep faculty and students apprised of the on-again, off-again status of employer-provided educational assistance—Section 127 of the Tax Code.

One piece of legislation that has had an undeniable impact on college budgets is the Americans with Disabilities Act. Again, colleges are committed to opening up educational opportunities for the disabled. We never have taken a position in opposition to the ADA regulations or the underlying law. I am proud of the progress we have made in this area in all of higher education, including the University of Illinois. Students with disabilities are the fastest growing sector of higher education, according to the HEATH Resources Center, which is operated by ACE. As a nation, we are making long-overdue progress in opening doors to individuals with disabilities, but it is at a cost. Making facilities accessible and providing support systems for students with significant physical and learning disabilities—the hearing and visually impaired and others—represents a huge investment.

Father John Schlagle, S.J., the president of the University of San Francisco, recently shared one example—a hearing impaired student who needed an interpreter. The cost of hiring the interpreter alone exceeded the amount the student paid in tuition.

I emphasize again, the issue is not opposition to the law. On the contrary, we strongly support full learning opportunities for all, regardless of disability. Rather, the issue is that there is an implementation cost that higher education, like other industries, must bear.

In the foregoing discussion of the factors that contribute to increases in tuition, I briefly referenced the adequacy of federal student financial assistance. I want to address that topic more thoroughly, and to debunk a popular misconception. Some believe that increases in federal student aid lead to higher tuition. This simply is not the case. Abundant evidence supports the assertion that the availability of federal student aid helps hold down college prices.

The chart I have appended to my testimony clearly reveals that during periods when federal student aid increases rapidly, tuition increases at a more modest rate than when federal aid grows slowly. Indeed, in the 1990s, we have seen a significant moderation in the rate of increase in college tuition. The availability of federal student aid, in contrast, rose dramatically. If federal student aid were pushing up tuition, the trend would be the opposite of what we have observed. Repeated studies of the relationship between federal assistance and tuition increases have failed to establish a positive correlation between the two.

Furthermore, the way the student aid programs are designed offers little incentive for tuition hikes when federal aid is increased. In the Pell Grant program, for example, awards for the vast majority of recipients are determined by subtracting a student's expected family contribution from the maximum award, which currently is \$2,700. For these students, raising tuition would make no difference in the size of their grant.

In attempting to cast some light on the factors that contribute to tuition increases, and also in attempting to suggest that opportunities are readily available to obtain a high quality education at a very affordable price, I do not mean to minimize or trivialize the real worries that families have about college prices. The fact that families believe that higher education is becoming less accessible is a cause for deep concern among college and university leaders, and it has led to extensive efforts to address the problem.

College presidents are very concerned about the tuition students pay and the debt they incur. They are making hard decisions to control and manage costs and difficult choices to improve on the quality of academic experiences at their institutions. For example, President Kenneth A. Shaw led the faculty and staff at Syracuse University through a \$66 million budget reduction over four years by reducing student enrollment by 2,500, faculty positions by 165, and staff positions by 400. He began by focusing on the mission, vision, and core values of the institution. This process yielded a decision to renew the university's commitment to undergraduate education and student-centered research, making Syracuse a place where all students could participate in research experiences. Cost management tools were developed that displayed revenue and expenditure patterns to all faculty and staff, and priorities for spending were reordered to fit the institution's values.

Many other colleges have taken innovative steps to restrain price increases, or even to lower prices. The range of approaches is as diverse as the institutions themselves. Some schools, such as Muskingum College, North Carolina Wesleyan College, and Waldorf College, have reduced tuition for all students across the board. Wittenburg University, the University of Rochester, and Pine Manor College offer targeted tuition discounts to in-state students or to children of alumni.

Some institutions approach the cost issue by helping students graduate faster. Indiana University of Pennsylvania and other schools guarantee that students can finish their degrees in four years. St. John Fisher College and the University of Missouri-Rolla guarantee graduates that they can get a job in their field or that they will have the skills they need to do a given job.

Many schools, such as the University of Rochester, Lehigh University, and Clark University, now offer incentive plans that give students a fifth year free if they wish to pursue additional study. Some public universities, including Michigan State University and the University of Virginia, have placed caps on tuition increases and provided a guarantee that tuition will rise no higher than the rate of inflation. Still others, such as the State University of New York, Black Hills State University, and Robert Morris College, have begun to emphasize three-year or accelerated degree programs so that students can finish their education in less time and for less money.

The University of Alabama has instituted a plan that offers all students who live on campus during their freshman and sophomore years free rent during their junior and senior years. This new policy—which represents a saving of about \$4,000—is designed to lower the cost of college for some students while fostering a greater sense of community on campus.

Colleges also are working hard to control costs by making productivity gains. Many examples could be cited, but the following are illustrative. For example, the University of California, Irvine's new approach to energy management. When faced with a major utility budget shortfall, the university instituted a comprehensive program to reduce energy consumption and expenditures. The initiative eliminated a projected \$1.5 million deficit and generated annual savings of \$1.9 million, as well as significant environmental benefits.

Also on the utility cost front, the University of Missouri, Columbia negotiated a contract to purchase 50 million kilowatt-hours of interruptible electricity from a local utility company. This innovative wholesale electricity contract met about one-third of the campus's electrical needs and cost less than generating the electricity through the university's power plant. Unlike other energy-saving programs, wholesale purchases require no massive work-force retraining, equipment investments, or capital improvement disruptions. This approach saved the university \$210,000 in the first contract year, and could save nearly that amount for each subsequent year of the contract.

I might add here that we estimate that the deregulation of the electrical industry would result in significant savings—in the 20 percent range—in energy costs to colleges and universities across the nation. As an industry, we spend between \$6 and \$8 billion a year on electricity costs.

Daytona Beach Community College forged a health care purchasing alliance with the local school board and county government in an effort to reduce health care costs without cutting back on benefits. As a result, the participants were able to offer their employees a total health coverage package with better medical rates, lower premiums, a preventive care system, a stronger and broader provider system, and incentives for preferred providers, while yielding a total savings to the college of nearly \$1 million.

The University of California, San Diego set out in 1991 to achieve cost savings by streamlining its procurement process. As part of the effort, the old paper-based procurement process for low-cost, high-volume supplies was replaced by a more efficient, technology-based system dubbed Express Order. Under the old system, the

cost of issuing a purchase order plus the cost of processing an invoice totaled \$12.72. Under Express Order, the cost is only 71 cents, just 5 percent of the old amount. Through fiscal year 1994-95, Express Order had yielded nearly \$200,000 in savings.

In the fall of 1992, Penn State's Milton S. Hershey Medical Center was confronted by local competition for patient care and increasing interest in managed care. To meet these challenges, the Center launched a cost reduction effort that sought to redirect a portion of the savings to improvements in services and an expanded treatment capability. Through these efforts, Hershey Medical Center saved \$37 million of the resources from the amount budgeted in 1993/94. Approximately \$23 million of cost savings were achieved by actual reductions in the budget; the remaining \$14 million came from caring for additional patients at no extra cost. Patient satisfaction surveys show higher quality, and the improvements have generated increased admissions.

Using its large size as leverage and pooling resources with other institutions, the University of Nebraska negotiated effective property insurance at less cost through the Midwestern Higher Education Commission's Master Property Insurance Program. The program expands insurance coverage, reduces costs, and stabilizes property insurance rates for the University of Nebraska and other postsecondary educational institutions in the Midwest. In the first year, the University of Nebraska and 43 other participating institutions realized premium savings of over \$415,000.

To achieve its goal of providing state-of-the-art laboratory facilities to its students without increasing tuition, the Milwaukee School of Engineering created a program through which private industries sponsor the continual upgrading of campus laboratories. The program, which is based on contractual agreements over a set number of years, benefits both parties: the college is able to provide its students with access to current technology and the company shares use of college laboratories, allowing employee interaction with faculty and students. An additional benefit is the work-ready graduates the program produces. The laboratory upgrading program saves the college \$1 million annually.

As these few examples illustrate, college and university presidents are actively engaged in attempting to discover new ways to keep college affordable without compromising quality. We have been aggressive in seeking other sources of support to supplement our state and federal dollars. And we continue to trim our own budgets and restructure our own institutions so that our savings can be passed on to the public.

At the same time, state and federal officials must continue to do their part. For example, state legislatures and governors must resist the temptation to relieve budgetary pressure by reducing support for higher education and raising tuition. And Congress should continue to provide adequate support for need-based student assistance. In the last two years, Congress approved significant increases in federal student aid spending. On behalf of the seven million students whose education depends on these programs, I thank you.

In closing, let me note that one of the benefits of our recent exploration of public opinion is the finding that higher education enjoys a huge reservoir of public goodwill. Americans believe that higher education is good for the economy. They believe our colleges and universities help produce good citizens. They believe that young people starting out in life today absolutely must have a college degree. They support university research and are thankful for its contribution to progress in medical science and high technology.

Our greatest contributions are, of course, our graduates. Let me tell you about one of the families I came to know during my years at Illinois. Jim and Carol Sullivan from central Illinois have five children, now ranging in age from 26 to 32. Jim is a farmer, Carol a school teacher. In the late 1960s, four of the five Sullivan children were enrolled at the University of Illinois at the same time. It was not easy. I checked up on the Sullivans last month: Jude, with a degree in agricultural economics and a JD, just made partner at a Chicago law firm. Paul is a civil engineer with the California transportation department. Maureen started out teaching and now works at a small-town post office. Matt, at 27 and with a degree in business and law, was elected State's Attorney of Edgar County, not far from the farm where he grew up. The youngest Sullivan is Ramona Mary, who now is a lawyer working for a legal aid corporation.

That is what we are about. And that is why we are here. Ultimately, what will determine our future is whether the people of this country continue to believe in their hearts and minds that we are making a difference in their lives. I can assure you that is exactly what we intend to do.

**Five-Year Average Annual Increases in Federal Student Aid,
Tuition, and Cost of Attendance, 1971 to 1995**

	Federal	Tuition and Fees		Cost of Attendance	
	Student Aid	Private 4-year	Public 4-year	Private 4-year	Public 4-year
1971-1975	21%	7%	7%	6%	6%
1976-1980	11%	9%	8%	9%	7%
1981-1985	2%	11%	10%	11%	9%
1986-1990	6%	8%	7%	7%	6%
1991-1995	12%	6%	8%	6%	5%

Note: cost of attendance includes tuition, fees, and on-campus room and board charges.

Senator Jeffords. Dr. Day.

Mr. DAY. Thank you, Senator Jeffords. It is an honor to be here today to represent the point of view of the American Association of Community Colleges and all of its member institutions, which number over 1,000 regionally-accredited institutions that are currently serving over 5 million students in the credit arena and another 5 million in the noncredit arena, and represent 45 percent of the total FTE enrollment of all of American higher education.

The community colleges today are truly America's people's colleges in terms of who they serve, what they do, and how they do it. If you take a look at the students being served, 58 percent are female, 63 percent are students who study on a part-time basis, and 85 percent of those students either work full-time or part-time. I think those latter two issues are directly related to some of the cost discussions that we have been having. The average age of our student is 29-plus years.

When we look at what they do, the mission of the community college is very comprehensive, but it is also very specific. We offer the full range of transfer-oriented programs and a full blend of occupational, technical-vocational career programs for workforce preparation, including career development, career guidance and support services and, from a philosophical standpoint, maintain a very high posture regarding open door in our highly accessible institutions.

How we do it—we are noted for our faculty productivity, our low overhead, our student incentives, the quality of the students we turn out, and the utilization of technology to ensure program quality and cost-effectiveness.

We are located within 25 miles of commuting distance within 95 percent of the American population, and the impact that we have had over the last 30 years in terms of higher education and participation rates has been extraordinary, and I do not think any other sector is more responsible for that increase in participation rates than the community colleges.

But despite this success story, Federal student aid policies need to give continued priority attention to the issue of access. As Dr. Stewart in the previous panel mentioned, the gaps in attendance between the most affluent and the least still exist and have widened over a period of years. We cannot rest on our laurels. If anything, and from the standpoint of Federal student aid policies, we need to strongly reaffirm our commitment to both access and equity.

Having said that, let me turn to the reauthorization. First, it should be clearly stated that the American Association of Community Colleges accepts and endorses the basic premise that all five discretionary aid programs and two loan programs should be reauthorized. That is not an issue for us, because on balance, the programs work well, do what they were intended to do, and have played a significant role in equalizing opportunities throughout higher education.

Having said that, let me make some specific suggestions on behalf of the Association and some comments regarding several of the programs.

The Pell Grant program from everybody's perspective is the backbone of our student aid program. Currently, it accounts for 47 percent of the aid that we give; 23 percent of the students we serve are on Pell Grant and do get some Pell Grant assistance. That is over 1.2 million individuals. And when you take a look at where that money is targeted, 65 percent of the Pell Grant recipients are either single or from families earning less than \$15,000 income.

At the same time, even though we do enroll 44 percent of the FTEs in all of higher education, we only get 10 percent of the appropriation.

We do have some concerns, both in terms of the discussion that has been taking place, but also in terms of some specific changes we would like to look at. There has been some discussion and some proposals have been floated on the issue of time limits for Pell Grant participation. AACC is not supportive at all of penalizing students who have critical financial needs for the amount of time it takes for them to complete a program. We realize that there may be a few isolated instances of abuse, but in all cases, our staff know who they are, where they are, and in fact utilize the DOE's existing standards of satisfactory progress to move students along and/or out.

In relationship to the totality of the numbers, we are talking about numbers that are infinitesimally small, and our own research, by the way, indicates there is really no difference between the participation rates and time to degree that students take whether they are on Pell Grants or not. So I do not know whose issue this is, but the fact of the matter is that for community colleges, if we were to push that type of restriction, it will unfairly penalize the community colleges.

On English as a second language, the Association and its member institutions urge retention of currently law, and we particularly object to the imposition of standards on these programs that are different from other Title IV-related eligible course offerings.

On the award rules, AACC supports the current Pell Grant award rules and the retention of the current framework. Any attempts to change the award rules to accommodate more tuition sensitivity than is currently reflected in the methodology would have a negative effect on the number of students and the colleges within our delivery system.

A major area of concern for us is the needs analysis. We believe that the Title IV needs analysis provision must be altered to give back single independent students greater eligibility for student aid, particularly with the grants. The changes made in the Higher Education Amendments of 1992 created undue financial hardship for hundreds of thousands of extremely low-income students. In the community college sector, at least 200,000 students lost their Pell Grants, and another 1.1 million have had their grants reduced. Congress should consider an income protection allowance of up to \$6,400 for single independent students indexed to inflation.

The committee should clearly understand that the population we are trying to help here is self-supporting, independent individuals with incomes between \$3,000 and \$6,400. It is unrealistic to expect this population to be able to finance their college solely with loan funds. By definition and practice, all Pell Grant recipients are

needy, but if any student population has a claim on funds, this one does.

And keeping with the recommendations of the American Council on Education, we also support protecting a greater amount of the earnings of dependent students so that the incentives to work are retained. The 1992 Higher Education Amendments decreased the income protection allowance from \$4,200 to \$1,750; the resulting effect was that many of the hardest-working students found that they actually lost grant eligibility for the Pell program due to their hard work efforts. By increasing the allowance to \$4,200, students would once again have the incentive to work, have additional funds available for college expenses, and correspondingly reduce the likelihood of needing loans early in their education.

There has been some discussion about changing the policy regarding remedial education. Remedial and developmental education make the open door work. We cannot do away with it. The Association supports the current policy and would like to see it continue. The current policy does not represent a blank check. Controls are in place, they are working, and specific limits are identified, allowing us to fulfill our mission in this particular arena.

In terms of the loan programs, we are basically looking at two particular issues. One is to give the financial aid officers in the institutions more professional judgment, flexibility and discretion. We can handle it, be both accountable and fair, and it would give some support to the general counseling that we provide students as we attempt to steer them away from overdependence on loans early on in their educational experience.

The second issue we are concerned about is the institutional default penalty. It unnecessarily penalizes smaller institutions which have very little traffic in the student loan business. We suggest and recommend that we alter the statutory language in the exceptional mitigating circumstances so that an institution that has fewer than 15 percent of its eligible population relying on either loan program should be exempt from any default-related penalties.

On ability to benefit, the current testing requirement of ATB students should be limited to individuals attending institutions that certify that the individual has the ability to benefit from post-secondary education and training. For institutions that are fully accredited and effectively have in place standards for academic progress, that is an unnecessary administrative burden on these institutions.

In terms of student refunds, another area of concern, basically, the Association and its member institutions feel that Congress should get out of the business of prescribing both the level of college refunds, the method of calculating same, and the timetable associated with it. Instead, we recommend a more direct and simple approach, and that is to simply allow the institutions to utilize approved refund policies established by accrediting bodies recognized by the Secretary of Education.

Thank you, Mr. Chairman. We appreciate all the support that you have demonstrated to us over a period of time, you and Senator Kennedy and the rest of the committee members. I appreciate the opportunity to be here today on behalf of the Association and have amended the statement on broader submission on reauthor-

ization that we submitted to Chairman William F. Goodling on the House Committee on Education and workforce. I want to again underscore our endorsement of the American Council on Education's posture regarding the reauthorization of the Higher Education Act.

The CHAIRMAN. Thank you, Dr. Day.

[The prepared statement of Mr. Day follows:]

PREPARED STATEMENT OF PHILIP R. DAY, JR.

Good morning. My name is Dr. Philip R. Day, Jr., and I am President of Daytona Beach Community College located in Daytona Beach, FL. I am pleased to be here representing the views of the American Association of Community Colleges (AACC) on the reauthorization of Title IV of the Higher Education Act. AACC represents 1,064 regionally accredited, associate degree-granting, public and private institutions of higher education.

As members of this committee are aware, community colleges make up the largest sector of higher education. In the 1996-97 academic year we enrolled approximately 5.3 million credit students, while serving more than 5 million non-credit students. Our credit students account for 45 percent of all of the full-time equivalent students in American higher education. Some 58 percent of our students are women, and 63 percent of them attend part-time. The average age is 29, and 21 percent of our students over the age of 25 already hold a bachelor's degree.

Community colleges have evolved and expanded as the needs of our population and the economy have developed. Community colleges serve a complex array of needs. They provide traditional transfer education, occupational education to meet workforce needs, developmental education, and customized training for business. Community colleges also strive to maintain an "open door" to anyone who aspires to higher education. This approach presents healthy challenges, but each and every student who turns our offerings into a improved future makes these challenges seem small.

Congress, the America public, and higher education administrators are deeply and rightly concerned about the current level of college costs. To some extent, this concern has become overly focused on a narrow range of well-known institutions, rather than on the entire spectrum of American higher education. At public community colleges, for example, in the 1996-97 academic year the average tuition and fees were \$1,492. This bargain cost is a product, in part, of state and local support for the institutions, but it is also due to the fact that community colleges provide each unit of education and training at a very low cost due to a variety of efficiencies. There are many reasons why this is so—some of the more prominent ones include high faculty productivity, efficient use of facilities, extensive employment of technology, and low administrative costs.

Congress should take pride in the fact that, for more than 30 years, the Higher Education Act has worked magnificently to provide access and choice to higher education for tens of millions of Americans. In 1960, five years before the HEA was enacted, 45.1 percent of all American high school graduates went on to some type of postsecondary education the following fall. In 1996, that figure had increased to 61.9 percent.

Federal student aid policies should continue to emphasize providing access to college to the neediest members of our society. Overall college participation by high school graduates in the U.S. shows constant growth, but in recent years the gap in college attendance between the most affluent and the least affluent has widened. For example, in 1993, the college completion rate was 88.4 percent for single individuals aged 18 to 24 who had a high school diploma and came from the top family-income quartile. The corresponding completion rate was 48.7 percent for those from the bottom quartile. This disparity has increased substantially over the last 15 years as federal student financial aid has declined, relative to inflation. Those with greater means have clearly been able to respond to the growing economic benefits from entering and completing college. These income-driven disparities are what one analyst has called "huge, persistent, growing, and nearly as wide as these disparities have ever been."

I would now like to turn to some of the most important issues concerning the reauthorization of Title IV of the Higher Education Act. I will limit this statement to high priority issues for community colleges. I will append to my statement a broader submission on reauthorization that AACC made to House Education and the Workforce Committee Chairman William F. Goodling in February. I would also like to reiterate AACC's endorsement of the position of the American Council on Education on the HEA reauthorization.

AACC starts from the premise that all of the five discretionary federal student financial aid programs and the two major loan programs should be reauthorized. On balance, these programs work phenomenally well, and they have helped create a stronger economy, a better citizenry, and a fairer society. The following are some specific comments on these programs authorized by the Higher Education Act:

Pell Grant Program

Pell Grants and Community College Students. Community college students are tremendously dependent on Pell Grants. In the 1995-96 award year, 1,268,700 two-year public community college students received a Pell Grant, representing more than 23 percent of all credit students. Over 65 percent of all the Pell Grants that year were made to individuals or families with incomes less than \$15,000, showing that the program remains extremely well-targeted. For community college students, the average grant was \$1,410. Pell Grants now account for 47 percent of all the student aid received by community college students.

Pell Grants are particularly important to community college students because, overall, community colleges do not participate in aid do not have equal access to the traditional "choice" programs in higher education, the Campus-Based and loan programs. Despite the fact that community colleges enroll more than 44 percent of the full-time equivalent (FTE) students in American higher education, the Campus-Based distribution formulas, with their complex distributional and "hold harmless" provisions, result in community college students receiving less than 10 percent of program funds. This is by design, but it has important implications for the need for our students to have full access to Pell Grants. Also, community college students are discouraged from borrowing to finance their education unless there is absolutely no other option. As a result, community college students borrow only a little more than 6 percent of all Stafford unsubsidized loans.

Time Limit on Pell Grants. The Clinton administration has floated the idea of limiting a student's Pell Grant eligibility to 150 percent of the duration of the student's program. This tentative proposal appears to be a response to reports of students taking extraordinary lengths of time to complete their degrees. We believe, however, that the Department of Education's existing standards of satisfactory academic progress have generally ensured integrity in promoting student advancement. In Florida, a study has shown that students receiving Pell Grants complete their programs within the same average time frame as those who do not receive this assistance. Most students, whether at the traditional age or older, have a strong incentive to complete their education as quickly as possible. That said, students often encounter a number of obstacles to timely degree attainment—financial, family, or, sometimes, academic. Students also often change their course of study while they are enrolled as they develop new aptitudes and interests. This makes hard-and-fast time limits on degree attainment an unwise policy.

English as a Second Language. This is a key activity at community colleges across the country, and it often occurs in places where it would not be expected. Some concerns have been raised by the Department of Education about the "stand-alone" ESL programs that are eligible for Pell Grants as long as they help individuals make use of already existing knowledge, training, or skills. We urge retention of current law. We would particularly object to the imposition of standards on these programs that were different from those used for other Title IV-eligible course offerings.

Award Rules. AACC supports the current Pell Grant award rules. If changes are made to the award rules in reauthorization, they should be rewritten to give the same Pell Grant to all students. As currently structured, the Pell Grant program is an anomaly; it is the only Title IV program in which student eligibility is tied to the tuition of the institution. These rules function to inhibit grant levels for many community college students, but in light of the numerous sensitivities involved, AACC supports retention of the current framework.

Community colleges strive to keep their tuitions as low as possible so they can be accessible to all segments of society. They do this through a combination of providing education and training for substantially lower cost than four-year institutions, both public and private, and through state and local support. We believe that students opting to attend colleges that deliver education and training as inexpensively as community colleges do should have full access to the maximum Pell Grant. Congress should certainly not discourage students from choosing a low-cost college option.

Need Analysis

We believe that the Title IV need analysis provisions must be altered to give single, independent students greater eligibility for student aid, particularly Pell Grants. There is unanimity within the higher education community that the changes made to the Higher Education Amendments of 1992 created a severe and

undue financial hardship for hundreds of thousands of extremely low income students. At least 200,000 students lost their Pell Grants as a direct consequence of this change, and more than 1,100,000 saw at least a reduction of their grant. Congress should consider an income protection allowance of \$6,400 for single independent students, and it should be indexed to inflation, as with the other Income Protection Allowances (IPAs). The IPA is the amount of a person's income that is "shielded" from need assessment.

We ask this committee to clearly understand the population we are trying to help. It is those self-supporting, independent individuals with annual incomes between \$3,000 and \$6,400. Many of these people are welfare recipients and must live in some type of communal situation. It is unrealistic to expect this population to be able to finance their college solely with loan funds. By definition, and practice, all Pell Grant recipients are needy. But if any student population has a claim on funds, it is this one.

The cost of our proposal has drawn attention. While the cost is not small, and would initially add about \$390 million to program costs, it would then become part of the Pell Grant appropriations base. We believe that this change can be accommodated within the structure of a program anticipated to receive more than \$7 billion of FY 1998 funding. As the committee is aware, the Administration supports providing even greater assistance to these students.

In keeping with a recommendation of the America Council on Education, we support protecting a greater amount of the earnings of dependent students so incentives for work are retained. Consideration should be given to increasing to \$4,200 the protection given to these earnings. The bulk of this income will ultimately be devoted to meeting college expenses.

Remedial Education

The use of federal student financial aid funds for remedial coursework has received attention in reauthorization hearings. The nation's community colleges support retention of current federal policy in this area. This policy both limits the amount of remedial education supported by the Federal Government, and still allows community colleges to fulfill one of their most important responsibilities.

Under the current Title IV statute, in order to be eligible to receive federal student aid for remedial coursework, students must be enrolled in programs that are otherwise Title IV-eligible. The use of federal student aid for remedial coursework is strictly circumscribed by statute: in no case may students use Title IV funds for this purpose for more than one year.

Remedial education at community colleges and higher education institutions in general is broad, but it is also quite shallow. According to a comprehensive 1995 study performed by the National Center of Education Statistics, 78 percent of higher education institutions that enrolled freshmen in the fall of 1995 offered at least one remedial reading, writing, or mathematics course. Twenty-nine percent of first-time freshmen enrolled in at least one remedial reading, writing, or mathematics course in the fall of 1995. However, in only 5 percent of higher education institutions are students enrolled in any remedial courses for longer than one year. In addition, in many cases these students are simultaneously taking college-level courses. Three-quarters of all students enrolled in remedial courses pass or successfully complete those courses.

Congress is right to be concerned about the tens of thousands of high school graduates who, in reality, have not achieved high school levels of competency in fundamental areas such as English and mathematics. The question, however, is whether these individuals should be denied the chance, oftentimes years after they have graduated from high school, to further their education and contribute to the economy. The value of remediation in this latter context is underscored by the fact that remedial education service or courses are offered to business and industry by 19 percent of the institutions of higher education that enroll freshmen.

FFEL and FDSL Programs

Institutional Discretion on Loan Limits. AACC supports giving colleges greater authority and discretion to limit student borrowing as a matter of institutional policy in certain defined circumstances. The current "professional judgment" accorded student financial aid officers is insufficient to allow them to prevent borrowing by students who, in the officers' best judgment, should not be using loans as a financing vehicle. The reauthorized Higher Education Act should permit colleges to set policies whereby entire categories of students would not be given loans or would be eligible for reduced maximums only, as long as the policies are stated in writing and uniformly applied to all similarly situated students. This would help foster responsible borrowing.

We recognize that giving institutions this flexibility is a delicate issue. Some people have perceived it as a potential threat to access to postsecondary education. We

do not believe that our institutions would develop policies that would curb student access, since providing such access is a first tenet of community colleges. We anticipate that this authority would generally be used for first term students who should gain a strong academic foothold before they begin to borrow thousands of dollars to finance college. Congress has already foreshadowed this need by requiring in the 1992 amendments that all first-time, first-term borrowers have a delayed disbursement of 30 days for their FFEL and DSL loans.

Institutional Default Penalties. Just as important, institutions with a minimal reliance on loans should not be subject to the loan default penalties in Section 435 of the Higher Education Act. Time and time again we hear from institutions with extremely few borrowers that have their loan eligibility and even their overall Title IV eligibility threatened because of the defaults of a handful of borrowers. (The Department of Education has added to the anxiety felt by our colleges in this area because of their policy of giving "provisional certification" to each institution that has had a 25 percent default rate during one of the previous three years, regardless of the number of defaulters involved.) Default rates are generally a poor surrogate for more sophisticated measurements of institutional quality, but they have absolutely no relevance to institutional performance when only a small percentage of students have loans. Therefore, we recommend that the statutory language in the "exceptional mitigating circumstances" be altered so that an institution that has fewer than 15 percent of its eligible borrowing population relying on either the FFEL or DSL programs will be exempt from any default-related penalties.

Vocational Education

Currently, the Higher Education Act does not make program eligibility distinctions between vocational and academic programs, except in the case of very short training programs (those between 300 and 599 clock hours). AACC urges that this approach be continued. During its tenure, the Clinton administration has suggested in a variety of contexts that vocational education programs should be subject to different and more stringent standards than academic ones; we anticipate a similar proposal to be forthcoming shortly. We strongly oppose this approach. We take particular issue with the notion that shorter-duration programs should be required to meet minimum quantifiable standards for program completion, while longer term programs would not be judged by the same standard. There is no logical or policy basis for this approach; it is either an outgrowth of older discriminations against vocational education, or perhaps, a roundabout way of limiting proprietary schools access to Title IV aid.

However, in this and in other areas our colleges are willing to disclose more consumer information about their programs, as long as additional Right-to-Know (RTK)-type requirements are designed so they mesh with existing state and local reporting requirements. We would welcome the opportunity to work with this committee on further refinements and possible additions to the RTK law.

Ability to Benefit (ATB) Students

The current testing requirement for ATE students (those who lack a high school diploma or GED) should be eliminated for individuals attending public institutions that certify that the individual has the ability to benefit from postsecondary education and training. Denying ATE students federal student aid prevents our colleges from fulfilling a key part of their mission. Since state and local sources provide almost 60 percent of the cost of educating students, we believe that it is wrong for the Federal Government to undermine the commitment these entities make to serving ATB students by denying them student aid. As with all college students, some will not finish their programs, but the relatively small investment the Federal Government makes in them is far outweighed by the many individuals who use our programs to make better lives for themselves. Also, at most community colleges ATE students are initially tested in order to assess their academic capability, and then carefully tracked to ensure that appropriate progress is occurring.

In its regulations concerning ATB students, the Department of Education has made it progressively more difficult for our institutions to serve this population, both in ED's approval of eligible tests and in the requirements for their administration. The AACC proposal hardly gives away the keys to the Federal Treasury: ATB students make up only a little more than 3 percent of our overall student population, and make up a similar portion of aided students.

Refunds

Congress is aware that the current federal refund policies need to be overhauled. These policies are unfair in principle and tremendously cumbersome to administer. Institutions should be permitted to use the refund policies established by accrediting bodies recognized by the Secretary of Education. Alternatively, federal policies could require that state and local policies for public institutions be used for Title IV.

AACC strongly objects to the existing requirement that a pro rata tuition refund be provided for 60 percent of a student's first period of enrollment. This is well beyond the point at which the student should decide whether he or she intends to finish that academic period. If Congress insists on prescribing college refunds, we believe that it is fair to require a pro rata refund for significantly less than 60 percent of a student's first period of enrollment.

The calculation of refunds also must change. Current regulatory requirements in this area have often resulted in large amounts of time being spent unproductively, as college officials have labored to determine the exact day when a student was no longer in attendance. Students must share in responsibility in this area. We propose that institutions be required to disseminate information about their official withdrawal policies, and that the recorded date of the student's official withdrawal be used as the date for calculating refunds.

Thank you for your consideration of these views, and I hope they provide you with a useful perspective as you make the weighty decisions involved in the HEA reauthorization. I would be pleased to answer any questions that you may have.

The CHAIRMAN. Mr. Waddles, please proceed.

Mr. WADDLES. Thank you, Mr. Chairman. It is a pleasure to be here. It feels comfortable coming back after working with the committee the last 2 years and prior to that, over in the House with the Education and Labor Committee. So it is a pleasure to have the opportunity to participate in your revisiting the reauthorization and your deliberations.

The CHAIRMAN. It is a pleasure to have you back.

Mr. WADDLES. Thank you.

In my present position, I come back as the president of the Career College Association, a 750-member and growing association that represents career schools across the country. We have a variety of institutions that range from as small as a handful of students studying how to make musical instruments, all the way up to a 7,000-member campus at Johnson and Wales in Rhode Island, a culinary and business school.

We have a unique part that we play in this arena. It has been helpful to hear the testimony as it has come forward today. We have joined with Dr. Ikenberry at other times as we have provided testimony, and I am sure we will in the future.

There is a spectrum that is represented here at this table that I think is very healthy for higher education to recognize and to respect. We provide the choice for students, and within that, I want to acknowledge and to compliment the rest of the higher education community for the work that has been done through the years to provide that opportunity.

I feel that my organization now is coming to a maturation process and is now rightfully sitting at the same table. We have gone through dramatic changes over the last 5 years, changes that, while serving as a staff person in the Congress, have led the opportunity to see in effect a cleansing of a community, where we have seen over 1,500 schools leave our portion of the sector.

We have seen institutions that have chosen simply not to survive because of the quality of the product that they are able to produce. What we see now is a tighter, more efficient, more effective group of schools that are providing opportunities for individuals that are not within the choice of just a traditional higher education arena.

We are now confronting an economy that is changing. The Bureau of Labor Statistics very clearly points out that by the year 2000, over 70 percent of the jobs available will not be bachelor de-

gree-necessary. By the year 2005, that number will have fallen to only 21 percent of jobs will need a bachelor's degree.

Does that mean that we need to move away from our current educational system? Of course not. We have seen a success in our Nation that is paralleled by none in the history of the world because of the educational experience that we have had the opportunity to participate in.

But right now, one of the things that I feel we need to do and we have not heard enough of, but I know that others at this table do a great deal of this, and that is to listen—listen to not only the students and their cries for help concerning the cost of education and the parents and families associated with them, but also the business community, the community that will be employing these individuals, who are looking for what it takes.

In a recent study that was done, "Spanning the Chasm: Corporate and Academic Cooperation to Improve Workforce Preparation," employers were surveyed to find out what they perceived of our higher education institutions. They said: Unwilling to change in any time frame; have narrow views of disciplines; fail to consider career needs, and inefficient.

They were asked about students, and they criticisms were that they were deficient in communication skills, the ability to work in teams, flexibility, the ability to accept ambiguity comfortably. There are a variety of areas where they are critical. They still hire; they still need that product to help them produce a quality workforce and a quality product.

But we need to be listening, and we need to be changing the way we teach, the way we are providing students with the skills they need. One of the things that I am proud of is that just recently, on July 17th, in *USA Today*, there was an essay done by John Strauss, the president of Harvey Mudd College. Often, we sit here and tout our own experiences or our own schools, but it is better when someone outside of our industry says something and talks about what we do. It was an article about cost and how the institutions needed to be dealing with it, and he talked about how proprietary schools are becoming a major source of competition to traditional institutions. "These proprietary schools," he says, "have already adopted new learning technologies, responded to customer needs, concentrated on their teaching missions, and emphasized faculty productivity unencumbered by tenure. Consequently, they bask in growing enrollments, satisfied customers, and significant profits, while others suffer economic reversals."

It is a business entity that we are part of. Primarily, most of our institutions are for-profit—not all of them. Johnson and Wales, which I cited and which serves on our board, is not. But we do represent a broad spectrum of institutions that we hope and we are encouraging to provide a better alternative.

Cost is an issue that we come together today to talk about. Cost is an issue that is not simple to deal with, but it is something that we believe the market can control, that the market will have the greatest impact on. One way we can provide the market with more skills in addressing the issue of cost and choosing across the broad spectrum is consumer information and providing them with more information so that they can understand what their choices are,

where they can go, not just being stereotyped—the only way to get a good career is to have a bachelor's degree.

In our institutions, we provide certificates, 2-year associate degrees, bachelor's degrees, master's degrees. We provide that spectrum as well, but we need to encourage people to seek out where they can be most motivated and where their skills best lend themselves. We think the marketplace has the greatest capacity to deal with the cost and not have artificial stimulants come in from the Congress or others to put clamps down on cost of institutions. I think that can be a very dangerous element.

Access is something that all of this plays into. Access to our institutions is something that we all want to have—quality and access to success that will come from that. As I served as a staff person in both the House and the Senate, as well as in the Department of Education for a while, what we have seen and heard is always the mandate of access, the mandate of the opportunity to step in the door. And no greater message can be sent from our community colleges than that they do provide that access.

I am a community college graduate, and I am very proud of that, because it provided me that chance. But it is also something that we must each challenge ourselves to ask access to what—access to a successful career and access to successful graduation.

You cited earlier the statistic that 75 percent of lower-income individuals fail to graduate from institutions. That is something that I think our system must deal with and deal with accordingly, and it should be part of the public policy debate.

One thing that impacts on access is the activity of the schools, and something that we have talked about is that we need to improve our relationships with the Department of Education. Regulatory reform is an area that the House had a hearing on last week, and in my testimony, I cite how many different pieces of mail and instructions and "Dear Colleague" letters have come out from the Department of Education. We need a stable environment for schools to operate in so that they are spending less time on paperwork and more time with the students who come through their doors, so they can assist them and provide them with the services they need.

One area that I want to touch on before I conclude is the change of ownership. This to me highlights one of the things that we must come to grips with in this arena of higher education. As we know, this is a highly technical banking area. There is a high degree of expertise that comes to this. This is not just traditional education; it is high finance.

In our community, one thing that is evolving is the change of ownership. We are seeing more public institutions, institutions that investors are putting their retirement money into; broad investments that are directly impacted by not only the success of the institution, but the impact of how the Department of Education and Congress deal with those changes of ownership as stocks are sold.

It is a technical area that has broad impact, and it is something that I have asked the community to come together to provide ideas and suggestions for the Congress as they move forward in this reauthorization which I think sets a tone for the future.

We are becoming very high-tech, and I believe this reauthorization is the first that will be dealing with that in a very positive and progress way, and I think that it is our duty to come forward with those elements to suggest to you.

The use of the Pell Grants, the balance of grants versus loans, the variety of issues that are laid on the table are all impacted by this reauthorization, and one of the things that we suggest is that we see a cleaner, more streamlined Title IV and the way that it treats all institutions. We need to give every student the same chance. We need to give every student the same help. And through that, we are seeking a streamlining of the definitions, a streamlining of the way that we are treating different institutions.

It is time we come together and treat this as a broad spectrum of higher education.

Thank you, Mr. Chairman, for the opportunity.

The CHAIRMAN. Thank you very much.

[The prepared statement of Mr. Waddles follows:]

PREPARED STATEMENT OF OMER E. WADDLES

Mr. Chairman, Senator Kennedy, members of the committee, I want to thank you for this opportunity to appear before the committee today. After having had the privilege to serve the committee during the last Congress, I understand the significance of this oversight hearing and appreciate the opportunity to participate in the committee's deliberation on the reauthorization of the Higher Education Act. As President of the Career College Association, I will be providing our views and comments relating to the current issues of access and cost for students seeking education and training beyond the high school level.

CAREER COLLEGE ASSOCIATION

Today's Career College Association (CCA) is a strong and growing organization consisting of over 750 educational institutions offering career-specific educational programs to hundreds of thousands of students each year. Our institutions offer these educational opportunities in over 200 occupational fields throughout the Nation. Career colleges successfully graduate almost one half of the technically trained workers who enter the workforce with training beyond the high school level.

Our goal is to clearly define the critical role career colleges are playing as a natural and vital stepping stone for individuals seeking to continue the pursuit of their individual educational and training goals. Over half of our private career college students attend some other type of college before or after attending a proprietary school. We have found that 30 percent of our students attend college before and another 20 percent go on and attend a college after they have attended a career college institution.

CCA institutions offer programs which culminate with certificates, two-year associate degrees, baccalaureate degrees, and master degrees. In addition to these varied education and training services, a unifying belief of our community is that we are committed to achieving the highest possible standards of educational quality, and we stand ready today to join with you in that pursuit.

Not everyone chooses or desires to take the same educational path. We must continue to embrace a broad spectrum of educational and training opportunities. People reach different stages of their own maturation and find their willingness and ability to learn has changed. As you explore the current higher education environment, you will find greater support today for the wide variety of delivery systems for education and training. This diversity has been proven to be a significant strength and our laws must find ways to embrace and encourage this diversity.

For those wondering about whom I am referring to when I speak of our students I ask, as an illustration, for you to simply think about the faces you see when you are traveling. We train the travel agents booking the flights you take. We train the pilots and mechanics who take you back and forth from your home state to Washington, DC. We train the multi-layered skilled workforce in the hotels and restaurants you visit. If you are ill, you will find that we have trained everyone in the doctor's office except the physician. If you are working and you have a computer, we train the technicians who set it up, program it, and fix it when you need help at home or in the office. We also train the court and hearing reporters who take down the transcription of hearings across the Hill and in the courthouses across

America. In reality, our graduates are seen in the faces of the people you meet and interact with each and every day. Many times it is true that our graduates are most successful when they are not noticed because that means our service is seamless, invisible, and effective. But society's needs are not invisible and the business sector is demanding more and more from higher education every day.

BUSINESS/EMPLOYERS

Many in higher education are improving their relationships and lines of communication with the business community, but we are measured on action and not just the rhetoric. In a recent National Alliance of Business publication, business leaders and employers were asked what they saw as the current educational system's limitations. In the report, "Spanning the chasm: Corporate and Academic Cooperation to Improve Work-Force Preparation," business leaders stated the following criticisms of higher education:

- unwilling to change in any time frame;
- have narrow views of disciplines;
- fail to consider career needs; and
- are inefficient.

The employers had a similar laundry list of deficient areas for graduates:

- communication skills;
- the ability to work in teams;
- flexibility;
- the ability to accept ambiguity comfortably;
- the ability to work with people from diverse backgrounds;
- understanding of globalization and its implications; and
- adequate ethics training.

The fact that business leaders believe that the higher education system is out of step with the current needs of the marketplace puts an even greater emphasis on the need to empower institutions rather than hold them back with artificial constraints.

Father than sit here and tell the Committee about all of the services our institutions provide and how effectively they accomplish the delivery of these services, I believe it is more effective to share what others are saying about what career colleges do.

On July 17, 1997, *USA Today* ran an article titled "College costs too much, fails Kids." The author was Jon C. Strauss, President of Harvey Mudd College in Claremont, California. President Strauss focused much of his article on the need for "traditional" colleges to reform their delivery of education services and to make the cost of that delivery more relevant to society's demands.

President Strauss' article included an interesting statement concerning the "competition" the traditional sector is facing. President Strauss stated, "But most enrollment-dependent institutions face major revenue shortfalls and increased competition from proprietary institutions. These proprietary schools have already adopted new learning technologies, responded to customer needs, concentrated on their teaching missions, and emphasized faculty productivity unencumbered by tenure. Consequently, they bask in growing enrollments, satisfied customers and significant profits while others suffer economic reversals. The only realistic answer is growth in learning and teaching productivity, which will bring down costs and produce better prepared students."

On June 18, 1997, *The New York Times* published the article: "Rising Cost of College Imperils Nation, Report Says." *New York Times* reporter Peter Applebome stated: "Experts say that higher education is already being reshaped by such forces as technology or competition from for profit institutions, so that a straight-line extrapolation from current economic figures is difficult. And higher education is such a varied enterprise in the United States that a crisis for a public college in California does not necessarily mean a crisis for Harvard or Princeton."

These statements are clearly very complimentary of the progress our community has made over the last five years. We have seen a community which was under severe attack during the last reauthorization emerge as a model for curriculum reform and strategic marketing. We know there are marketplace advantages and disadvantages related to our organizational structures but we are excited about sharing how our market-based positioning has relevance with today's consumers.

COST

Having worked in the higher education arena over the last thirteen years, I know as well as anyone that there are no simple answers to the questions relating to the cost and access of higher education in today's society. What we have found is that there are multiple market forces and consumer pressure points which our institutions have chosen to address. Career colleges do not have the luxury of state government subsidies or tradition-laced insulating factors which can mask a true reflection

of the education market and its demands on an institution. If our schools are to survive in the dynamic marketplace of today's world, we must remain in touch and sensitized to the needs of the consumers of our institutions' products: our students.

For many in higher education, both profit and non-profit institutions, market factors are beginning to drive more of their campus decisions, and we are seeing more attention being paid to an institution's balance sheet and student cost implications. This may be different from years past, but it will prove to be a necessary and valuable change in the way the entire higher education community deals with scarce resources and a wary public. To continue to have the public's confidence, we must show both a attainment of educational excellence, as well as, a skill in managing an institution's balance sheet. This can be an extremely demanding juggling act, but one that the successful survivors of this current public review will welcome and I believe eventually be able to thrive under.

The career college community also recognizes that we have institutions which have been operating on the highly criticized premise of no matter what tuition level the school chooses to charge the students, they will still come and pay. But because of the market-based nature of our institutions, we have had to confront the need for change and reform much faster than other higher education institutions in our community. Average tuition at career schools and colleges cost 1.2 percent of lifetime earnings. This compares with 2.7 percent for bachelor degrees at traditional colleges.

We welcome the debate that is occurring over these family driven cost factors and offer our help in walking through the economic analysis and the Committee's development of answers. The very fact that the education community is finally confronting the issues of cost and relative effectiveness, while also going through this very public and cathartic debate is restorative of the relative impact of the market pressures coming to bear. We believe that the most effective tool in managing the costs of education is an educated and informed consumer who has a full spectrum of choice and a variety of delivery systems. If there are changes that must be made from the federal level, then, first look at how we can provide the consumers the very best cohort of information on which to base their career decisions.

ACCESS

A central piece of CCA's reauthorization goals relate directly to the issue of access. The Federal Government has created a variety of access points for the American student who is seeking to participate in this Nation's educational system. The use of Title IV funds has been a historic door of opportunity for students and a great societal benefit. The evidence of this benefit is reflected in the continuing ability of our workforce to produce a product that is not only competitive in the world's marketplace, but is seen as the industry standard. CCA believes that as the marketplace demands evolve, so must our federal attitude toward flexibility and inclusion.

Title IV programs have always placed a great reliance upon the individual and their ability to make the career decisions which they feel most comfortable with and are motivated to pursue. This personal motivation has been the greatest indicator of success on the educational and financial sides of the ledger. We at CCA believe that it is time to begin removing the artificial barriers related to separating higher education and postsecondary education. It is time to remove the unnecessary divisions which have only served to separate the community at a time when we need to combine our efforts in order to meet the public's demands for quality and flexible skill base.

We all have examples of institutional excellence within our various sectors of the higher education community, but only by realizing that we are all eventually measured together will we be able to confront the need to elevate the quality of all institutions. A simple step of removing the multiple definitions of institutions in Title IV will send a clear and cleansing signal that we are serious about simplification and clarity. The students who seek an education at an approved institution should be able to access the same federal assistance programs no matter the institution's financial makeup. No single individual is to be held above another as we attempt to prepare today's and tomorrow's workforce participants. There are other substantive and symbolic barriers which we are seeking to remove and I will submit a complete copy of the CCA reauthorization issues to the committee.

REGULATORY REFORM

We are also seeking, along with many others in the higher education community, an improved relationship with the Department of Education. Particular attention is needed on the development and implementation of the regulations which permeate every activity associated with the delivery of educational services. A hearing was held last week in the House of Representatives where community representatives, including CCA, shared their concerns about the current proliferation of regulations

and the current system's layers of paperwork associated with the supposed "simplification" of procedures.

During the hearing, testimony was given that spoke of the Department of Education's regulatory activity and the perceived work load it places on all institutions. From January 1994 through August 1996, one of our schools received the following financial aid information and directives from the Department:

- 152 Dear Colleague Letters
- 13 Pell Grant Program Letters
- 50 Campus Based Program Letters
- 42 GSL/FFEL Program Letters
- 8 SSIG Letters
- 47 Direct Lending Letters
- 113 Federal Register Notices

Each of these vital pieces of information contained new information, changed information, proposed regulations, final regulations, interim final regulations, changes to the regulations, updates and more. This amounted to a total of 386 communications or an average of 12 items per month to review and comprehend or risk being cited in an audit.

The worst impact of this array of federal requirements is that less and less time is being spent developing curriculum and encouraging students. More and more time is spent on the paper trail. We want to state clearly that we are fully committed to supporting and defending the necessary institutional quality measures that are associated with the access requirements of Title IV assistance programs. But there must be a time when we step back and say that we have succeeded and any further tightening of the screws will only deny access and not enhance it.

We have seen a dramatic improvement in the quality of the career school community. Over 1,500 schools have closed in the last five years through a combination of tougher accreditation actions and a variety of mandated quality standards relating to institutional economics, educational curriculums and legislatively mandated standards. We know that today's career colleges are far more economically and ethically stable and resilient than they were five years ago. As a specific example of this kind of attrition, I cite the experience of the Accrediting Council for Independent Colleges and Schools (ACICS). As ACICS reported to the Government Accounting Office (GAO), they have had 345 of the schools they have accredited over the last five years close because of a variety of reasons. This is just one example of an accrediting group which has seen its population drop as a direct result of tougher standards and stricter oversight and a smarter consumer.

This evidence of change is also seen as a strong argument for the support of our current accreditation system. Our national and regional systems have made tremendous strides over the last five years to improve the confidence and integrity of the system.

In addition to the varied curriculum alternatives, CCA schools now provide a critical source of industry based skill upgrading for front-line workers. The fact is that a worker's career path will potentially change as many as 7 to 10 times in a working life. We are proud that our schools are able to provide America's workforce the chance to seek skills necessary to ensure an ability to adapt to these unexpected paths.

OTHER REAUTHORIZATION ISSUES AFFECTING ACCESS AND COST

A. LOAN SERVICING AND SYSTEM REFORM

Another serious issue impacting on the ability of students to access the school of their choice relates to the health of the existing loan systems. We are supporting a wide array of reforms found in House legislation H.R. 2140, sponsored by Congressman Klink and a series of bipartisan cosponsors.

These reforms are designed to help the system improve the prevention of initial defaults, straighten loan servicing and collection efforts, and save scarce federal tax dollars.

B. CHANGE OF OWNERSHIP

During the evolution of the higher education programs we have witnessed changes in the manner of some ownership structures in the career college community. Because of the influx of an increasing number of publicly held organizations there are a variety of unexpected stock transfers and financial issues which place increasingly technical demands on the Department of Education.

I have asked a group of financial experts from our community to come together in August and see if we can craft a coherent set of reasonable and workable change of ownership recommendations for the Congress to consider during this reauthorization period. Millions of public investment dollars are now flowing into our publicly held schools because of the confidence the financial community has in our product. This brings with it a greater demand for proper stewardship from our schools as

well as the Department of Education. Times have changed and our Department of Education must change as well or they will put at risk millions and millions of invested dollars. The financial experts have agreed to my request for help and I will keep the Senate staff advised of the progress we make.

C. TRANSFER OF CREDIT

As the Senate explores a variety of issues relating to the cost factors in higher education I would like to add one more arbitrarily treated issue that is increasing the cost burden on students all across the nation. Even though our institutions, which are federally approved and nationally accredited, are successfully training associate degree and bachelor degree students they are often stymied if they seek to transfer their earned educational credits to a "traditional" institution.

Students who are seeking to continue their education or simply attend another institution are forced in many cases to increase their debt burden because of having to repeat courses they have completed at a career college institution with National Accreditation.

We all support an institution's autonomy and respect this ability to choose the institutions they want to allow student credit transfer agreements to exist with. But the primary concern rests with some regional accrediting bodies who choose to impose severe limitations on the ability of transfer students from National Accreditation institutions thereby making it virtually impossible for credits to be accepted at a regionally accredited institution.

We support the open door policy that has received wide spread support over the last decade which is to allow the institutions to decide for themselves on the transfer of credit issue. This will serve to reduce student's tuition totals, shorten the length of time spent at a institution to complete a program, and then reduce the student's overall debt exposure, or amount they would have to borrow.

CONCLUSION

Thank you for allowing me this opportunity to testify today. I believe we have the best higher educational system in the world and this reauthorization simply allows us to expand on the current spectrum of possibilities. It is time though that we recognize and appropriately react to the changes occurring in the systems. It is the marketplace that is bringing us this change and we will be seeing more as the delivery systems and styles change in the coming days.

In the past, we have had a tendency to reject or cordon off those areas of change that seemed to threaten the status quo of how higher education has been delivered. We have grown past those days and we are now looking for the best combination of services and opportunities for all students no matter the path they choose. One student, worker, or leader is too many to lose.

I urge you to move forward with a reauthorization that is seen as improving access through inclusion of the may and not the exclusion of the different or challenging. I also encourage you to be cautious when reacting to the issue of the day dealing with cost of education. The marketplace and a informed consumer have proven to be the best protection against exploitation and waste. If the consumers fail to receive the benefit they are seeking, then the marketplace will turn away from the provider.

I look forward to working with you as you continue to amend the Act. I offer my services and the services of my Association to you and your staffs as you move forward. Thank you.

The CHAIRMAN. As you know, this hearing was scheduled on the cost of higher education, and we have kind of drifted away from that into how to cope with the higher cost, rather than analyzing it all as to higher cost.

Dr. Ikenberry, your written testimony focused largely on college costs. I wonder if you could share some of your thoughts with regard to that?

Mr. IKENBERRY. Thank you, Mr. Chairman.

I might just comment on five factors that contribute to college costs and then say just one word on how colleges and universities are trying to cope with these.

I think the biggest driver behind college costs that is most frequently ignored is the expansion of knowledge, if you will, and the opportunity to learn itself. I can reflect back to the time I came to the University of Illinois, now 17 years ago. Many of the whole departments and programs that we have today were not even in ex-

istence at that time, including now today one of the Nation's leading computer science programs, but a very immature kind of program 15 or 20 years ago. The same is true in molecular biology and many other areas, that every college and university in this country, every college and university reflected at this table, needs to cope with the explosion of new knowledge, and that in turn, unfortunately, has an upward pressure on the cost side.

Technology—every college and university today is trying to rewire the campus to provide the needed technological opportunities, be they in the laboratory or through learning stations for students. State support in many instances—we forget that 8 out of 10 higher education students in this country are enrolled in public higher education—the States in many instances, for whatever reason—a budget crisis within the State, expanding requirements of the correction and law enforcement agencies, other demands of other competing areas in State budgets—have systematically reduced their support or have not kept pace with inflation, and that has an upward pressure on tuition costs.

Institutional student aid, particularly in the private sector, private colleges and universities, and public institutions as well, devote a significant portion of their own institutional budgets to trying to attack the equality of opportunity issues that we faced earlier.

It is important that we do that. It is important that we maintain the principle of need-blind admissions. But all of that also has an upward pressure on college costs.

And finally, I think, as my colleague just mentioned a few minutes ago, Federal rules and regulations, State rules and regulations all also contribute to the cost pressure.

What are colleges and universities doing to cope with this? There are two or three things. One, every college and university is trying to take a fresh look at what it is they do best and their mission and purpose, their niche, if you will, and trying to not overextend themselves, because the farther one gets overextended, the more cost pressure and the more cost difficulties one faces.

Colleges and universities are trying to restructure and reengineer their administrative processes; and finally, they are trying to enter into consortia and innovative ways of purchasing, innovative ways of solving problems more efficiently, that ultimately help to drive down costs.

All of this is having some impact. Tuition increases this past year were the lowest that we have seen in several years. So on the one hand, Mr. Chairman, I am trying to acknowledge that there are very real pressures pushing costs, up, but on the other hand, I would convey very clearly to you and members of the committee that colleges and universities are equally concerned about this issue and doing whatever we can to help contain costs.

The CHAIRMAN. Other comments?

Dr. Day.

Mr. DAY. I think Dr. Ikenberry has spoken very articulately about the issue of cost from an institution's perspective, and I support and endorse those comments.

Let me look at it from the student's perspective, if you will, and I would like to just deal with it on what I call the three E's. The

first is expectations. The reason why there is a gap between the folks who are at the high end of the economic strata and those who are at the low end is because people do not feel or have the expectation that they can participate fully in higher education. I have been a president for 15 years, and wherever I have been, we have surveyed every, single graduating high school senior while they were still in their senior class and asked them what were their plans to go on to higher education. Over 90 percent of the students, every, single time we have done this survey, have consistently said they would like to go on to higher education.

When you take a look at how many actually do, there is about a 30 to 35 percent swing in terms of the expectations that they had and whether they were able to realize those expectations in terms of actually participating and getting involved.

The second "E" that I talk about is the issue of energy. Not to use a sports metaphor, but it is kind of hard to run a 100-yard dash when you have lead in your sneakers; and that is what the burden of student loans, I think, does to many students who are participating in higher education today, particularly community colleges.

And the last "E", if you will, is effort. Knowing that you are burdened by a large level of indebtedness makes it very difficult to remain focused and very difficult to remain channeled and directed toward the goal at hand, which is to get a quality education. And that does play a role with the attrition rates that we experience, particularly at the low end of the higher education ladder, with community colleges.

The CHAIRMAN. Mr. Waddles.

Mr. WADDLES. I think one of the things that is happening in relation to the cost is that you are starting to see something that has happened in my portion of the community and is occurring in others, and that is changing the way that you deliver the product.

Our courses normally take about half the time that other courses may take to get a degree, but that is not just because of us; others will do that. You mentioned with the last panel how can you look at alternatives to the kind of university or the kind of electronic means by which we can deliver the same product.

I think we are seeing that. I think that that is growing in the community, and that is going to have a long-term impact on the quality that is out there. That is one of the things the committee must come to grips with in the distance learning setting as to how to watch over that and how to control that, but at the same time not stand in the way of the marketplace, because that is one of the factors that I believe that as we have had this very public debate about cost—and in many ways, it is focused on a small percentage of those institutions that are at the high end, but it covers us all, and any changes will cover us all—the reality is that the marketplace is driving change; the marketplace is demanding change in community colleges, in 4-year schools, and in proprietary schools that has not occurred in the past, and I think that that is a healthy part of the way that this debate is moving.

But just as in our institutions, we are looking at ways to deliver differently—provide child care on the campus, provide other means

that facilitate not just tuition needs but also the other needs that come with the cost of education.

So I think it is all of those factors. It is not as simple as just how do we cut down on the high cost; it is what are the elements that make up that cost, and how can we change that.

The CHAIRMAN. Senator Reed.

Senator REED. Thank you, Mr. Chairman, and I thank you all for your testimony.

I think it is entirely appropriate that you would all be at the same table to show the richness of higher education in the United States, that it is not only the 4-year traditional colleges, but the community colleges and the career colleges, and all of you are playing a very important role in ensuring opportunity for our citizens.

Again, I would like to reiterate one of the thoughts of the chairman, that there is a responsibility to provide resources, and then there is also a responsibility to control cost. Dr. Ikenberry, I think your testimony illustrated some of the difficulties today because of changing technologies, labor intensity, and a host of issues that you face. But I think you understand that getting in front of these costs either by changing the way you operate or just simply, controlling costs is a key part of maintaining our ability to generate resources.

Let me just make one point, at least, with respect to cost. It is somewhat frustrating here to try our best—and I believe we are—to continue to invest in higher education and see some of the States retreat from that investment. This comes at the same time the Governors are contemplating tax cuts and all sorts of wonderful benefits for their constituents—and there is nothing wrong with that, but could you comment upon the State level of commitment and whether it is waning, and whether it is waning dramatically, and is that something that is troublesome to the higher education community?

Mr. IKENBERRY. I think the overall trend lines in several States, Senator, are very troublesome. Also, from my own personal experience, one thing I found most frustrating in the State of Illinois, which I think has had overall a fine record of supporting higher education over the years, is the lack of stability and consistency and predictability in State policy. This presents, I think, serious problems, not only for those who lead and manage public universities, but also translates into problems for students as you get a spike of 5 or 10 or 15 percent tuition increase all of a sudden in a single year.

I think the most important message that we could deliver to State governments across the country would be twofold. First, the stability and consistence issue here is important, and we should drive home that point. The second point, however, is to continue to encourage States, as you have at the Federal level, to look strategically at higher education as part of the overall strategic plan of the State, because it has vast implications for economic development, it has vast implications for quality of life and the health of the community and the health of the State. And to the extent States have clearly thought about that and defined the role that they expect higher education to play in the States, I think that that will help also to counterbalance the pressures to disinvest from higher

education and place those moneys in other parts of the State budget.

Senator REED. Dr. Day, do you wish to comment?

Mr. DAY. Senator, from the State of Florida, I would have to say that we do not see a pattern that you would say represents a backing off of a commitment to higher education, particularly public higher education, and I would add to that private education as well, because our State more recently has been really upping the ante from the point of view of the amount of support they are willing to give to students who are even going to be attending schools in the private sector.

I would say in light of the commitment that the State of Florida is making, in fact, in some cases, they are going off the depend end from the point of view of trying to control cost. I mean, we are having debates related to time to degree, we are having debates regarding excess credit hours, and frankly, on some of those issues, I think it is not healthy if we end up going in a certain direction.

So if anything, the States—and our particular State, I think, is a good example—are trying to do everything we possibly can to control the cost associated with the commitment that they are making. They are increasing that commitment, but correspondingly, they are putting a lot more emphasis on accountability and standards of quality upward. So as far as the Southeast and particularly Florida is concerned, I do not think you have anything to worry about.

And Mr. Chairman, you are going to have to excuse me. I have a plane to catch at one o'clock. My son is getting married in Chicago tomorrow night, and my wife is already there, and if I miss this plane, I will probably never be here again. Thank you so much. [Laughter.]

The CHAIRMAN. Dr. Day, you are excused, and our best wishes to you.

Mr. DAY. Thank you.

Mr. WADDLES. Senator Reed, I would just underscore what Dr. Day was just saying. What we see from a national level as we have been trying to monitor the States is that Kentucky is an example of what is happening. You see a Governor in Kentucky who has made a strong commitment to education, has a very strong State system, but he has just passed through the State legislature legislation which strips away the community colleges from the State system because of the demand for accountability, that they are asking for more from the system. They are talking about graduation rates and what they get out of it, and that they want the State system to elevate itself, they want it to be seen in a more national role, and to do that, they feel that it would take too much to do it on a community college level.

We are also seeing, as Dr. Day said, in Florida as well as other States, Kentucky being one, that they are opening the doors for benefits for students going to private schools as well, and I think in many ways, they are the forerunners at times. They see things on the accountability side, but also on the choice side, where they are pressing the issue much harder, and they are holding people's feet to the fire to a much greater degree.

Senator REED. If I may, Mr. Chairman, make one comment in response.

The CHAIRMAN. Certainly. Go right ahead.

Senator REED. We have talked about accessibility to education, but one of the points—and this does not require a comment, Mr. Waddles—about the career colleges is that they seem to be located in areas where there are many low-income students, and just from a physical sense, that access is very important. That is something that I think we do not recognize enough. And similarly with some of the community colleges, they are located—and this is no detriment to the traditional 4-year colleges—

Mr. IKENBERRY. That is all right; they are our members, too.

Senator REED. Well, let me just say that we sometimes forget that physical proximity is as important as reasonable tuition and amenable programs.

Just one other point, Dr. Ikenberry. Mention was made earlier of the TRIO program. I think it is an extremely useful program, and I wonder if you might comment upon it from your perspective, because more traditionally, TRIO is aimed at preparing young people for either community college or 4-year colleges.

Mr. IKENBERRY. I appreciate your mentioning that, because at the time, I just was not able to speak to that directly in my earlier comments.

The TRIO program is so vitally important along with all the other efforts that are made to be sure that we not only open the door to access to college for citizens, but that we open the door for success in that venture and that we move to increase the graduation rate.

The TRIO program is very critical in doing that, so I think that continued strong support of that program is important. It really has a strong record of performance and documentation of its overall impact on improving not only access, but improving ultimate success in the higher education venture. It is very important to make that point, and I thank you.

Senator REED. Thank you, Doctor.

Thank you, Mr. Chairman.

Mr. WADDLES. If I could just comment, Mr. Chairman.

The CHAIRMAN. Certainly. Go right ahead.

Mr. WADDLES. I think the two comments that you made are very important to link together—one being the proximity to lower-income individuals, as well as the issue of the TRIO program.

Studying and learning at the knees of the Members whom I have served, I know very well how important the TRIO program is to access to individuals as they look to their hopes and dreams of how they can get in; for first-generation college students in a family, it is a great opportunity.

That is one reason why I would challenge this committee and challenge the House as well as they look at reauthorization that, because of the people whom we have a tendency to serve, and because of Federal laws and rules, we see our schools moving out of the inner cities and into the suburbs so that they can attract a population that makes sure we do not have default problems. That is one of the policy issues that is being driven that access may be less and less; but as we serve those individuals, as community colleges

do, as universities do, we do not have access to the TRIO program. Our students look at the program and are confronted without that assistance.

I understand the parochial nature and have defended that in the past, but I would challenge this committee as you look to the future, as I believe this committee is doing, as to how to best position the student and the higher education community, to look at how we can provide those same kinds of skills and that same kind of assistance to those individuals as they are seeking a career of their choice.

The CHAIRMAN. I think that that is an excellent point. The TRIO program was really set up as a demonstration project in the hope that it would be built into the system in K through 12, 9 through 12, or whatever. We see more need for mentoring all across the board. I raise that because the reality of appropriating ten times as much as we do now for the TRIO program or something which would probably be in line with its successes is not very likely, but somehow, we have got to get the States to understand that that should be built into the education system.

It has been mentioned several times today that it is those stupid regulations that add to the cost of education, and erase the problem. You do not have to delineate for me now, but if you would follow up on that and just give us some idea of these stupid regulations that create all of these costs, so that we can perhaps take some affirmative action in our legislation, or action with the Department or wherever they are, I would appreciate it.

I would also point out that we did start out looking at cost, and we will continue to do so. There is the thought of setting up a commission to look at costs. I do not know whether that is a good idea or not.

Dr. Ikenberry, what do you think?

Mr. IKENBERRY. Actually, as we understand, the commission is now appointed and will begin work, we presume, very shortly.

Ultimately, although one can never predict the work of the commission and how it will ultimately come out, I think our feeling is one of optimism, that there is a need for the public and for higher education institutions to better understand this issue, and that under the best of circumstances, this commission can make a very significant contribution to that.

So I can only pledge to you on the part of the higher education community that we are going to do everything we possibly can to work cooperatively and provide such information and such assistance to the commission as it may require to go about its job and achieve a productive results.

The CHAIRMAN. Mr. Waddles.

Mr. WADDLES. I think that Dr. Ikenberry's points are well-made. I think the time frame may be one of the biggest factors impacting on the quality of the product that they can produce in the short period of time they have.

Also, again from a parochial perspective, it was disappointing not to see someone from a for-profit institution appointed to that very limited, understandably limited, committee. But we will be assisting them at every step, and we hope and expect them to take a very informed look at at least what is on the table right now. I

think it can help the debate, but I think the time frame may be a bit too short.

The CHAIRMAN. I want to thank all of you for your participation today. We would like to reserve the right to pursue you with further questions, including Dr. Day, whom I would not want to escape that.

I will ask unanimous consent—and I do not have much doubt that it will be granted—that Senator Dodd's statement be made a part of the record.

[The prepared statement of Senator Dodd and statements and material submitted for the record follow:]

PREPARED STATEMENT OF SENATOR DODD

Mr. Chairman, this morning, we complete our hearings on the reauthorization of the Higher Education Act with today's hearing focused on the central issues of the Higher Education Act—cost and access.

There are few issues as important to America's families as this one. Parents recognize that their child's success is in no small measure dependent on their educational achievement. Statistics bear this out—a person with a bachelor's degree earns twice as much as one with just a high school education.

But this issue is not only of concern to families; higher education has defined and shaped America's economy in the post world war II era. Our economy has grown on the strength of knowledge-based, high-skill industries.

This would not have been possible without higher education or without our Federal commitment to ensuring access to college.

Since the GI bill, millions of Americans have been able to attend college because of the assistance offered by the Federal Government. Today, fully 75 percent of all student aid is Federal.

And yet, with rising college costs and growing student debt, families increasingly worry that college is slipping beyond their grasp. Studies suggest that, even with the nearly \$50 billion of Federal aid available each year, affordability is already becoming a factor for those at the lowest income levels.

And in nearly all families, a letter offering financial aid is as, if not more, important than the actually letter accepting a student into the college of his or her choice.

We must be sure these nightmares do not become reality for America's families and we must reach out to those who already believe that college is beyond their reach.

We have, I believe, already made great strides this year with the passage of the hope scholarship, the deductibility of student loan interest and other tax measures to assist families with these costs—although we await the final conference bill on that measure and are hopeful it will include additional education assistance.

We must now take the next crucial steps and re-examine Federal higher education programs. These programs have, I believe, been an overwhelming success. Pell Grants, students loans, and work study are more common on college campuses these days than western civilization classes.

But we can and must do more. That is what this reauthorization is about. I look forward to today's hearing which gets to the heart

of this matter and to the work ahead in shaping a higher education act that will take America's families and economy into the next century on an even stronger foundation of education than we have today.

Last, Mr. Chairman, I want to compliment you on the thoughtful series of hearings you have organized over the last 5 months on the reauthorization of the Higher Education Act.

As you well know this reauthorization is a massive undertaking—but these hearings will ensure that we proceed with a firm grounding in the scope and success of Federal efforts that make college a reality for millions of families.

CAREER COLLEGE ASSOCIATION,
750 First Street, NE, Suite 900,
Washington, DC, August 6, 1997.

Senator JAMES M. JEFFORDS,
Labor and Human Resources Committee,
513 Hart Senate Office Building,
Washington DC.

DEAR SENATOR JEFFORDS: Per your request, Bruce Leftwich has provided your staff with a copy of testimony presented by Ms. Debbie Dunn from Yorktowne Business Institute during a July 17, 1997, House Postsecondary Subcommittee hearing on Regulatory Reform.

Ms. Dunn's prepared remarks include a tally of the over 300 communiques her institution received during a three year period following the 1992-93 reauthorization of the Higher Education Act. Her testimony then goes on to explain how her institution, like many others, believes that the regulatory process has become overly burdensome and complex.

During her oral testimony, Ms. Dunn was asked several questions regarding the procedures used to develop and publish the regulation which seek to implement the statute.

After you have had an opportunity to review the testimony, I would enjoy meeting with you to discuss ways in which both the process used to develop the regulations and their implementation can be improved.

Sincerely

OMER WADDLES
President

PREPARED STATEMENT OF DEBORAH DUNN

TESTIMONY BEFORE THE COMMITTEE ON EDUCATION AND THE WORKFORCE

SUBCOMMITTEE ON POSTSECONDARY EDUCATION AND LIFELONG LEARNING

JULY 17, 1997

Good morning. I am Deborah Dunn, and I am pleased to be here today. I am here today as a representative of the Yorktowne Business Institute in York, Pennsylvania, and also as a recently retired member of the Board of Directors of the Career College Association. As Executive Director of a school with a student body of 300 students, I know from personal experience the huge burden of regulations which postsecondary educational institutions face. I am very proud of my institution: Yorktowne Business Institute has achieved an 80 percent graduation rate, a 92 percent placement rate, and a cohort default rate of 9 percent.

There has been a growing realization over the past several years that governmental regulation, while serving important purposes, can impose unnecessary burdens on the public, particularly on small businesses. As a result, regulatory reform has been a priority issue for both the Republican-led Congress and the Clinton Administration. Through legislation and Executive Orders, governmental agencies have been directed to pay particular attention to assuring that their regulations are carefully targeted to particular problems and impose the minimum burden possible on the regulated public. The impact of these laws and Executive orders has been uneven.

The regulations of the Department of Education have historically been highly detailed, complex, and burdensome on the entire higher education community. And,

the process through which the Department promulgated its regulations precluded real input from both students and educational institutions. In my earlier testimony in York, I detailed the large number of regulations and policy interpretations the Department had issued in a several year period. Equally distressing is the process through which those regulations are published. I would like to talk briefly today about both the substance of the Department's regulations and the process through which they are promulgated.

One area in which the regulations have been particularly burdensome is the refund area. The 1992 HEA amendments set out what was supposed to be a very simple statutory requirement for a "fair and equitable" refund of unearned tuition and related educational expenses. Under that provision, a school which paid the largest of the refund required under state law, accrediting agency policy or a federal pro rata policy for first time students was considered to have a fair policy. The Department of Education took this statutory language and created an extremely complex and burdensome regulation—so complex, that even the Departmental employees charged with enforcing the policy did not understand it.

As if this were not bad enough, the policy and regulations were subject to almost constant change. In a period of three award years, the Department issued three major regulations changing the refund policy. On July 8, 1993, the Department published the first set of regulations for the 1993/94 award year. Less than a year later, on April 29, 1994, the Department published a very different set of regulations for the 1994/95 award year. Later that same year, on November 29, the Department published yet more substantial changes to the refund regulation for the 1995/96 award year. And, during this time period, the Department was also publishing Dear Colleague letters and other guidance with yet more changes to the refund policy. In addition, several courts have held portions of the current refund regulations to be contrary to the explicit statutory language. Financial aid administrators have had to spend an inordinate amount of time learning how to calculate refunds under these ever-changing rules. These were not merely minor refinements in the calculation, but rather major changes.

Further, the Department required schools to calculate all three refunds for every withdrawing student, even if it was clear from past practice that one particular refund policy always or almost always resulted in the largest refund. At my small school, for example, we process approximately eleven refunds per month. Of these, most are first-time students in the first few weeks of their programs. For my students, the federal pro rata policy results in the largest refund in the vast majority of instances. Yet the staff must perform alternate refund calculations for every student. At larger schools, the burden is much higher.

Even worse, the Department created a refund policy that is not fair to neither the student or the school. The Department requires that we use the refund formula that produces the largest refund back to the federal Title IV programs—even if that results in the student owing the school more money! Because of the way the Department's regulations require us to calculate refunds, those federal grant or loan funds that have not yet been paid to the student as of the date of withdrawal are counted as "unpaid student cash" which can result in the students with the greatest financial need—those on full financial aid packages—owing money to the school that was never anticipated to be paid by the student.

Another key area in which there have been substantial problems is the complex area of financial responsibility regulations. The regulations which the Department has in place are rife with problems. To its credit, the Department has recognized this and is working to correct it, which I will discuss a bit later. However, the Department has simply failed to implement some of the statutory mandates in this area, particularly those which would be to the benefit of schools.

Among other requirements, the statute requires that schools maintain a sufficient cash reserve for payment of refunds. The regulations require schools to maintain a letter of credit in the amount of 25 percent of their prior year's refund liabilities. However, the statute provides for an alternative to this letter of credit if a school participates in an approved state tuition recovery fund. The Department published criteria for the implementation of this provision on November 29, 1994, but not one single state tuition recovery plan has yet been approved.

In our State of Pennsylvania, the Pennsylvania Training Assurance Fund was established in 1993 to provide reimbursement to students of unearned tuition in the event of school closure. The current balance in the fund is \$652,000. Since 1993, five schools which participated in the fund have closed. A total of 76 students from those schools chose to seek reimbursement from the fund, and they received a total of \$52,930, which comes to a rate of 98 cents on the dollar in refunds. Yet this plan, which was submitted for approval in September of 1995, has not been ap-

proved. Nor has any of the other state plans, some of which have been awaiting approval for more than four years.

There are many other substantive problems with current Education Department regulations for postsecondary education. Some are areas where the Department has tried hard to avoid complying with statutory mandates. For example, the Department's mitigating circumstances standard for cohort default rate appeals is so unreasonable that the Department takes pride in the fact that not one single mitigating circumstances appeal has ever been granted. Other problems are caused by the Department's attempts to place more onerous regulations on some sectors of the community—most often the proprietary schools. An example in this area is the Student Right to Know regulations, which create a much stricter standard for calculating completions for non-standard term institutions. But, my time this morning does not permit me to discuss all of these problems. Rather, I would like to turn my attention to the procedural issues relating to the way in which the Department has promulgated its regulations.

In each of the last three years, the Department has issued a large number of Notices of Proposed Rulemaking during a compressed period of time. Usually, this happens in September, so that final regulations can be published by the December 1 Master Calendar deadline. For example, last year, the Department published six NPRMs between September 6 and 23, with comment periods ranging from 30 to 45 days. Comments were due between October 21 and November 4. The issues included some of great importance to the community, such as financial responsibility and cash management. Again, it appeared to the community that there would not be enough time for the Department to truly consider our comments. The Department had known for quite some time that it was planning to regulate in these areas. But again, it published all of the NPRMs at the last minute.

Because the financial responsibility regulation was so important to the community, most commenters focused on that. And, it turns out that we missed an important problem in the cash management NPRM. As part of the new cash management regulation, the Department proposed to change the payment period definition for clock hour schools. Under the new system, which became effective on July 1 of this year, the second academic year is divided into two equal payment periods. In the old system, the first payment period would have been one half of an academic year, with the remaining period constituting a final payment period. This rule may seem to make sense, but it has an irrational, and, I believe, an unintended result. For students who begin their program in late August or early September, which for most schools is the biggest group of enrolling students, the first payment period of the second academic year will no longer cross over into the next award year. So the students will not be eligible for Pell Awards for that payment period. A large number of students will be forced to incur greater debt to make up for the reduced Pell eligibility. And, fellow students in the identical program at the identical school will be eligible for the full amount of Pell Grants, simply because they began their program in a different calendar month.

As I said, I believe this result was not intended by the Department, but in the rush to analyze the impact of six different proposals in a nine week period, and in the Department's rush to finalize the rule, the problem was not caught.

If this were an isolated instance, my level of concern would be much less. However, this problem of multiple rule changes all at the last minute has been a pattern. In 1994, when the Master Calendar deadline was extended to May 1 on a one-time basis, the crunch came in February. The Department published a 19 page NPRM on SPRE on January 24, with a comment due date of March 31. Then, on February 10, it published a 19 page NPRM on Institutional Eligibility, which included such hot issues as 85-15, branching, and changes in ownership, with a comment date of March 14. On February 28, the General Provisions NPRM was published, which consisted of 64 pages of Federal Register fine print on such important topics as the definition of an academic year, provisional certification, financial responsibility, administrative capability, compliance audits, and refunds. The comment period was 30 days—the minimum allowed under the APA, and the comment was due on March 30. It simply was not possible for a school such as mine to read through all of these complex proposals and formulate intelligent comments on such a wide variety of issues in this compressed period of time. Moreover, since the comment periods ended less than six weeks before the Master Calendar deadline for publication of a final regulation, we do not believe that the Department was able to give the kind of careful consideration that it should to the comments that we were able to file. And, again, the Department made some important mistakes in those final regulations. Some the Department fixed through administrative interpretations; others we are still living with.

I would like to focus the remainder of my testimony today on a more recent instance where the Department has seemed to truly take regulatory reform to heart. The recent efforts of the Department to create a new financial responsibility regulation have been a model of consultative rulemaking. The beginning was not promising—the Department issued the NPRM on September 20, along with seven other NPRMs as mentioned above. However, it soon became apparent that something different was happening. Based on the large volume of comments and the serious problems which were raised, the Department extended the comment period, to allow the community sufficient opportunity to examine and react to proposals. In addition, the Department reached out to members of the higher education community for a series of half-day-long meetings, to allow discussion among and within the various sectors of higher education. Assistant Secretary David Longanecker himself attended these sessions, to show the importance the Department was attaching to them but also to listen to the views of the participants. And, much credit should go to Deputy General Counsel Jaime Studley, who chaired the sessions, and to the staff of the Policy Development Division, who attempted to create a truly collaborative atmosphere.

When it became obvious that this process was working, the Department again extended the comment period. Most importantly, the Department made changes in its proposals as the process proceeded to reflect the views expressed by the participants and commenters. While the final rule has not been promulgated yet, we are hopeful that this consultative method will result in a much improved rule.

I believe that this process can be used as a blueprint for a much improved regulatory model for the Department of Education. Key parts of the new model would include the following:

There should always be sufficient time for thoughtful review of the proposal. A 30 day period allows the glaring problems to be found, but may not allow for the more subtle ones to be, especially when several proposed regulations are published within a short period or when the issues are complex. And, a longer comment period allows commenters to formulate alternatives rather than simply raise problems with the proposal.

There should be a process for the affected community to exchange ideas. This is preferable to simple written comments, as participants from various parts of the community may get ideas from each other, create innovative solutions, and raise issues that may not otherwise be found until too late.

There should be a process for the community to react to the Department's proposed changes, to make sure that solutions are real solutions and spot problems ahead of time before the regulations are published in final form. Technology can help with this. Posting contemplated changes on the Internet allows for further comment in an informed way, without necessarily adding too much additional time or cost to participants.

There should be an evaluation of the impact of the proposal on students and schools to make sure that the benefits outweigh the costs of the regulation, and that the regulation does not inadvertently cause problems for students or schools.

There should be a proprietary institution "ombudsman" in the Department to help the Department better understand the students and institutions in this sector.

The agency should create an atmosphere of partnership. All of us—the Education Department and the higher education community—are working toward the goal of better meeting the needs of our students. Let's recognize that we all have needs and concerns that are valid, and work from there.

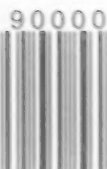
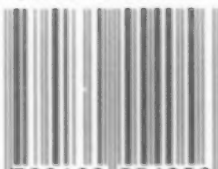
Thank you for the opportunity to testify here today. I urge you in your consideration of the reauthorization of the Higher Education Act to amend the law so that we can spend more time with our important educational mission and less on complying with overly prescriptive regulations.

The CHAIRMAN. I deeply appreciate your participation. It has been very helpful and very educational to me, and I thank you all.

The committee is adjourned.

[Whereupon, at 12:34 p.m., the committee was adjourned.]

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